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Version: Version of Record

Link(s) to article on publisher's website:
<http://dx.doi.org/doi:10.21954/ou.ro.0000e8d1>

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Accounting and Management Interrelationships in Local Government in New Zealand and Scotland at the End of the Twentieth Century

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Thesis offered for Doctor of Philosophy

Within Economics and Social Policy

Submitted 26 September 2003

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Submission date: 25 September 2003
Award date: 22 June 2005

Foreword

I needed to do this, and thanks are due to everyone who helped me with the process and supported me through ten years of work.

Most of all thanks are due to the interviewees, who shared their passion and concerns.

May we all contribute to a better future for local public services.

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Chapter 1 Introduction

This is an account of a research project inspired by a desperate need to know what was happening to work that I thought, and still think, is important; the provision of accountancy to oil the wheels of local society. That inquiry led me to give up my job and took me to the other side of the world, and gave me the opportunity to talk with many other people who believed in the value to society of the work they did.

In 1988 Anthony Hopwood, speaking at the University of New South Wales, said that “Accounting can be seen as being actively drawn upon in the construction of new organisational forms and boundaries.” (Hopwood, 1990, p16) As an accountant working in Scottish local government at the time I was aware something along these lines was happening, and not at all happy that I understood it, or that I liked it. The accounting which was being called for, and the relationships between accounting and other parts of the organisation that I had understood seemed to be changing, and I felt that the justifications given for these changes were thin both on the ground and in substance.

The most visible reason for change was to fulfil the requirements of central government. Westminster and the Scottish Office, through legislation and regulation, had specified changes in the way that local government obtained income and provided services. But if this was the main force for change then all councils should have been adapting in similar ways. Yet it was quite clear that different councils were doing things differently.

Different management and committee structures and different use of accounting records seemed to be too wide a range of responses to have been underwritten by Westminster fiat. Scotland, with local government dominated by the Labour party, could have been expected to resist the regulations and Acts put in place by the Conservatives in London.

Was this broad range of responses to the legislation explained by the wriggings of political distaste? If so then this was not a very satisfactory explanation, as each council appeared to be applying different ways of complying with the law whilst maintaining as much as possible of their own strategy. Other influences were clearly at work. Possibly as observed by Newman et al, “central government policy was frequently used to legitimize internal change” (Newman et al, 2001, p 62)

Meanwhile, in New Zealand, another right of centre party, this time the Labour Party under David Lange and Rodger Douglas, were also re-writing the script for the public sector. When I worked in New Zealand in 1992 I found many similarities between the two countries in local government and current issues in local government. However, compared to Scotland, in New Zealand there had been little legislation directly affecting how local government did its job and central government had little control over local government income as councils largely funded themselves from rates and charges. This situation made it seem even more strange that the changes in accounting and management which I had seen in Scotland were also happening on the other side of the world. In New Zealand changes in finance reporting were described as being “a necessary component” and “consequential (yet crucial)” to the comprehensive programme of public sector management reform by Ian Ball and Brian McCulloch, who also asserted that “parallel, but not identical reforms have also been taking place within local government”.

(McCulloch & Ball, 1992, pages 7 & 12) The changes meant that the public sector had moved from cash based to accrual accounting, and that financial reporting (by and large) conformed to the same formats and rules as private sector accounting. These were changes in reporting, as required by law, but there had also been a lot of other changes, not required by law.

So what was going on? In both countries big changes in the way in which local authority services were being organised and accounted for were clearly affecting the councils' employees and absorbing a lot of councillor and management time and energy. Change can be represented and narrated in many ways: positively as a natural event or defence against hostile forces; as a transformative phenomenon; or negatively as uncertainty or turbulence (Newman & Clarke, 1996). Change can be seen by individuals as potentially or inevitably destructive of many of their achievements. At the very least debating, planning and operationalising change has to have used resources which could otherwise have been used more directly for services. At the worst change could have produced a drain on resources and fear and confusion among councillors, managers, workers, service recipients and the electorate which will have compromised the services for years to come. And accounting seemed to be involved in some way. Academic colleagues encouraged me to treat this concern as a research problem and this very long piece of writing about accounting in local government is the result.

I felt I needed to know how accounting was being used in association with changes in management structures in local government and how the accounting profession was involved. As the research progressed my concern crystallised around three emergent organising questions. Firstly, how were people involved in local government using accounting and to what end? Secondly, what was the role of the accounting profession in constructing the accounting that was being done? Lastly, what were the consequences, unintended as well as intended, of these accounting processes?

The research was conducted between 1992 and 2003, and is set in the context of the changes in Scottish local government from the early 1980s and re-organisation of New Zealand local government in 1989. Case studies were completed between 1998 and 2001.

As a researcher I aimed to produce a thesis with sufficient academic rigour to attain a Doctorate in Philosophy. As a writer the challenge has been to try to make the reading interesting and involving enough that you the reader will reach the end, feeling not only that I have added something to your knowledge, but also conveyed some of the passion and enthusiasm most of the people interviewed for this research and I share about local government.

Local authorities in Scotland and New Zealand are governmental bodies created by statute to perform certain tasks. They are controlled by elected councillors. However that control is limited by legislation from central government which lays out, to some extent, what councils may do and how they may do it. In both countries the local electorate contribute to the funding of these local services, some of which are provided by council employees, and some by external organisations. These broad generalisations outline five groups with interest in council activities: central government, local councillors, local electorate, external service providers and council employees. From this point continued generalisation becomes difficult, as differences between the two countries and between different councils in each country mean that every approach to generalised inference is mined with caveats. Looking at the way accounting is involved in defining, creating and recording activities in councils also reveals much about the relationships between the five groups. Accounting creates particular visibilities of an organisation; different accountings provide different views (Hopwood, 1990). This research is looking at accounting, but it also uses it as a lens to view the organisations, including their accounting practices.

In each country local government laws lay down a skeleton construction for all councils: there shall be elections conducted in certain ways, there shall be certain employees, who shall be treated in certain ways, there shall be certain duties, performed in certain ways.

Both countries also have permissive clauses in their local government legislation. The next chapter, Background and Context, provides some details about the legal framework for and accounting in local government in the two countries.

But the interpretation of how councils came to be so different requires a broader viewpoint than the strictly legalistic. Over time the theorists concerned with questions of organisational definition have looked at (amongst other things) the boundaries, the culture, the leadership, the myths, the actions of individuals within the organisation and the organisational locations in time and place. In this thesis accounting and organisations are seen as institutions and as social constructs. Chapter 3 places this viewpoint in the field of theory produced by previous researchers into accounting, organisations and local government.

This research considers four councils which were chosen after a whole field survey into accounting and structure in local authorities within each country. The theory behind the choice of this methodology and a detailed description of the methods used are in Chapter 4.

One of the first outcomes of the research was general information about each of the four case study councils. This was used to create a representation of each, compounded of the informant's commentary and my reaction to their council and its environment. These brief descriptions are placed towards the end of Chapter 4 as part of the scene setting before I move into the research findings. From the very large amount of information gathered four topics emerged as particularly useful in that each shed light on my three organising questions. The first two topics were common to all the cases: treatment of overhead costs and business units within the councils, which form the subjects of

Chapters 5, 6 and 7. These look at the differentiation of certain costs from others, their accounting treatment and how that came about, and its relationship with and effect on management structure.

The second two topics are concerned with country specific funder relations. Chapter 8 considers the way in which New Zealand councils adapt their charging strategy to suit the ratepayers and service users who provide most of the council funding. Chapter 9 looks at the central government funding of councils and the adaptation by the Scottish case studies of their expenditure policy to make the best of these rules. Similar pragmatic approaches can be seen in both countries, despite the very different income basis.

The last chapter brings together the contribution of each topic to the questions. The findings of the research are developed and summarised. Some parts of the questions are answered, leading to suggested theoretical developments and potentially fruitful areas for further research.

Chapter 2 Background and Context

This chapter sets out the legislative framework that councils in New Zealand and Scotland were working within during the 1990s and early 2000s. It also outlines the political climates that prompted some of the legislative changes. It goes on to examine the roles of the accounting bodies most involved with the public sector in each country at that time. Finally the role of the finance function in each country is considered. By doing so, this chapter provides the context for addressing the three key questions:

- How were people involved in local government using accounting and to what end?
- What was the role of the accounting profession in constructing the accounting that was being done?
- What were the consequences, unintended as well as intended, of these accounting processes?

In both Scotland and New Zealand the entity that is a council is a creation of legislation, defined by Act and Regulation. Law defines how a council is constituted; how it is funded; what the council must and may do; and in some degree how that may be done. What the council is and how those bones of legal phases are fleshed is supra-legal, a construct of beliefs, attitudes, history, geography and personalities which contributes to local politics, with both a small and large “p”. Different persons within a council may see different aspects of the organisation and it is within their cognitive worlds that this research lies, but the perceptions of the players have to be considered in the context of the underpinning legal environments. Local government accountants operate within the framework of law relating to accounting and local government and its interpretation by

politicians, councils and accountancy profession. There are similarities between the two countries but there are also differences. Understanding both aids interpretation of each.

Legislative Framework – Scotland

Although a part of Great Britain, Scotland has a separate legal system and much local government legislation is specific to Scotland. However individual acts may be similar to those enacted for England and Wales. Local Government in Scotland underwent two major reorganisations in the last thirty years of the 20th century. The Local Government (Scotland) Act 1973 created a two tier system from 15 May 1975 over most of the country (the exceptions being the three island groups which were constituted as unitary authorities and remained the same after the 1996 legislation). On the mainland local government consisted of 9 regional councils and 53 district councils. The major responsibilities of the regional councils were for education, roads, water and sewerage, police and fire and the relatively newly created (Social Work (Scotland) Act 1968) function of social work. The districts provided housing, the environmental services, tourism and amenity services, including a large number of smaller civic benefits (Appendix I contains a complete listing for both types of council). The 1973 act also provided for an optional lower tier of consultative government in the form of Community Councils, which continued after the 1996 legislation.

The second major reorganisation took place on 1 April 1996, when the Local Government etc (Scotland) Act 1994 combined the mainland councils to form 29 unitary councils, giving a total of 32 single tier councils covering Scotland. The same act removed the water and sewerage functions from councils and placed them with three appointed bodies. Councils similarly lost their environmental control functions to the Scottish Environment Protection Agency. Councillors receive allowances and are paid for loss of earnings

while performing council business. Councils are led by a convenor who is elected by and from the councillors.

In 1975 local government was funded by a mixture of rates (levied on a rental value) on domestic and commercial properties, charges to users, and Central Government grant.

The grant was a combination of general and specific grants, paid through the Scottish Office, and amounting to around 75% of total funding in 1975-76 (Cochrane, 1993). In 1996 funding continued to come from government grants and user charges, but general rating had been replaced by a non-domestic rate set by central government on commercial properties and a banded, property valuation based Council Tax on domestic properties. The latter was the only tax source controlled by the councils and as a proportion of total budget net of charges was estimated at 21% in 1996 and at 22% in 2001-02 (CIPFA, 1996, 2001a). (For a brief period between 1989 and 1993 the domestic rates had been replaced by the Community Charge, popularly, or perhaps more accurately unpopularity, known as the Poll Tax.)

The public sector in Great Britain (as elsewhere) has accounted on a cash basis during most of its history. Local authorities were different from most of the sector in that revenue accounting was produced on an accrual basis, although capital transactions were recorded as receipts and payments, i.e. on a cash basis. There have been changes in capital accounting in the last ten years, but these have affected the financial accounts intended for publication, rather than internal decision making. The exception was perhaps the requirement that business units providing Compulsory Competitive Tendering services had to make a return on capital. Central government accounting was originally completely cash based, and in a drive to introduce an accrual basis had been pursuing “resource accounting”, since the issuing of Green and White papers by the Treasury in

1994 and 1995. This follows accounting standards used in the private sector as far as possible (Likierman, 2003).

Between the two major re-organisations in Scottish local government there was a blizzard of legislation adding to, removing and affecting various local government services. Similarly to Water and Environmental Protection other services were removed from council control and placed with newly created, non-elected bodies. Examples include Further Education Colleges in 1993 and Careers Service in 1995. Housing Benefit was added to councils' responsibilities, but essentially as an agency service for central government, who continued to determine the rules. Additional regulatory responsibilities were added; for instance Social Work had to inspect residential homes and Education had to certify playgroups. The Social Work inspection role has since been removed to another new appointed body. Inspection and audit of councils' activities was increased by the creation of the Social Work Inspectorate in 1985 and the Scottish Accounts Commission in 1975, especially with the later addition of value-for-money audit to the Accounts Commission role. In the economic development sphere the creation of the Enterprise networks from the old Development Boards deliberately brought business people into the distribution of more public funds, leaving councillors with a diminished role. Although councils were democratically elected bodies, the areas over which they had autonomy were reduced by much of this legislative change and the powers they had were constrained by central government. These changes were in addition to central government's continuing control over local finance. Government grants as a proportion of local government expenditure fell to 68.5% at the start of the 1980s (Cochrane, 1993). This withdrawal from direct funding did not prevent central government from involving itself with the overall spending of councils. For instance in 1982-83 individual councils in Scotland were accused of excessive and unreasonable expenditure (Midwinter, Keating

& Taylor, 1983). The introduction of the Poll Tax was justified in part by an assertion that personalising local tax would result in a greater public interest in reducing local spending.

Most of these changes originated from a series of Conservative governments between 1979 and 1997. During that time the majority of Scottish councils were not Conservative controlled, which exacerbated the tension between central and local government. The situation became even more difficult with the election of the new councils in 1996, none of which had a Conservative majority. The first elections after that reorganisation produced 20 Labour controlled, 3 Scottish National Party controlled, 6 Independent and 3 councils with no overall control.

The national election in 1997 produced a Labour government, and as a consequence devolution ensued for Scotland in 1999. Elections to the first of the new Scottish Parliaments resulted in an Executive controlled by a Labour/Liberal party coalition. The powers that had been devolved from Westminster to Edinburgh included most local government services, and as a result the major funder of Scottish local government changed from the Scottish Office, acting on behalf of the Westminster Parliament, to the Scottish Executive, created from the Scottish Parliament.

So in a space of three years the Scottish councils had changed from being mostly two tier to being a smaller number of unitary authorities, and the source of their funding and direction changed from a Conservative government, based in Westminster, to a Labour government, based in Westminster, and then to a Labour/Liberal coalition Executive based in Edinburgh.

The move to a more localised form of national government and the change in political control might have been expected to produce a climate where local government and central government worked harmoniously towards the same ends, especially considering the high numbers of members of the Scottish parliament who had been local councillors. Whether this has occurred is a matter of debate. The restrictive approach to public expenditure and avoidance of additional income tax espoused by the Conservatives was continued by the 1997 Labour government which meant that much of the public sector had to wait for the additional funding hoped for under a Labour government (Midwinter & McGarvey, 2001). There has been a lot of legislative activity, mostly done through statutory instruments. Between devolution in 1999 and the end of 2002 there were 1662 (excluding the 65 specifically relating to foot and mouth in 2001) (HMSO, 2003). The majority of these had some impact on local government. Of the first 49 acts published by the Scottish Parliament, 25 had some impact on local authorities, and nine were mostly concerned with councils and their activities. Whatever the level of harmony between themselves and central government, councils have had to cope with a lot of change to their legal frameworks.

One change was the freezing of Compulsory Competitive Tendering (CCT), the timing of which effectively meant that CCT was not extended to white collar services. Existing contracts which were reaching their end were allowed to be extended rather than re-tendered, and councils were encouraged to modify CCT operational constraints even though the specific financial requirements remained. Both the Scottish case studies had reconfigured their CCT services, removing what people in the councils saw as hindrances to effective consensual working, but were still producing CCT accounts for the contracted services. This is discussed further in Chapters 6 and 7. Instead of progressing with CCT, councils have been required to institute a Best Value regime. This started in 1998 and has

not been as tightly specified by central government as Best Value in England. The Scottish version started with a similar underlying model, but it has been allowed to develop with central government and Audit Scotland¹ guidance rather than prescription. The Executive has also encouraged and made extensive use of pilots for new forms of service and service delivery. These allow volunteer authorities to act outside the normal format without censure from Audit Scotland in order that different approaches can be tested.

There is more than one opinion on the relationship between central government and local authorities since devolution in Scotland. Midwinter and McGarvey see it as a continuation of the light touch regulation used by the Scottish Office. Scotland's small size allows for personal contact among the various parts of public sector administration, and encourages a consensual style. Perhaps as a result there is less regulation by central government, (Midwinter & McGarvey, 2001). However, there is a belief and some evidence that the Scottish executive does not trust local government to deliver as required. The maintenance of trunk roads was taken away from councils in 2001 and put out to tender. Although all parts of the country were tendered for by consortia of private companies and councils, none of these groupings won a contract, and all the work went to the private sector. Despite what has been said already about the original development of Scottish Best Value the Local Government in Scotland Act 2003 legislates for Best Value. In the same act councils have been given new powers to advance well being, and new duties to lead community planning, although there is concern that other community organisations have no duty to participate. Central government seems to have an ambivalent attitude towards councils, and one of the results is that new initiatives from the Executive have not relied on relationships and mutual interest to achieve their aims.

¹ Audit Scotland was created in 2000 and assists the Accounts Commission for Scotland.

Rather, every new initiative comes with a carrot and stick. In many cases the carrot is additional funding in the form of bid funds, the stick being that money for the carrots has been found by top slicing existing local authority grants. This means that for an individual council their central government funding is a proportion of a reduced general pot, but they have the opportunity to top it up by applying for bid fund money. This creates more work in application, claiming and reporting. It also channels the money won into those service areas that the Executive has decided need funding. The net effect is to reduce council autonomy. This area is considered in Chapter 9.

Legislative Framework - New Zealand

Local Government in New Zealand underwent a major reorganisation in 1989. This considerably reduced the number of councils and absorbed over 400 special purpose boards. The Local Government Amendment Act (Number 2) 1989 created a two tier system from 1 November 1989 for almost the whole country. This gave 13 regional councils, one county council (the Chatham Islands) and 74 territorial councils (cities and districts) one of which had regional responsibilities (Gisborne). In 1992 one of the regional councils was dissolved and the three territorial councils in its area assumed regional responsibilities giving a total of five single tier unitary authorities. The Local Government Amendment Act 1992 which made these changes allowed for further boundary and tier changes at the behest of the local electorate. The major responsibilities of the regional councils were related to maintaining the natural environment, rather than for services directly to people. The 1992 Amendment Act clarified the role of the regional authorities as regulatory authorities concerned with resource management and related functions. It also reduced their power to provide services using their own staff, requiring the council to be “satisfied that the advantages of this option for the ratepayers of the region clearly outweigh those of any other option” (Local Government Amendment

20

Act 1992, s31). As a result most of the regional councils reduced employee numbers.

The two types of councils are not in a hierarchical relationship but cover different functions (Statistics New Zealand, 1994). The territorial councils, which do more and cost more, are regarded as more significant.

The territorial councils provided roading, water and sewerage, the environmental services, pensioner housing, tourism and amenity services, including a large number of smaller civic benefits (Appendix II contains a complete listing for both types of council).

Territorial councils have a directly elected salaried mayor and pay members a combination of attendance allowances and salary. In comparison to Scotland there are less party politics and fewer councillors, and multi-member wards are common. There is also provision for an optional lower tier of government in the form of Community Boards.

The basic legislation for New Zealand councils during the 1990s was the much amended Local Government Act of 1974. The reorganisation of 1989 was created by the Local Government Amendment Act (Number 2) 1989, and the Act was reprinted as on 1 November 1990. Among the 16 Amendment Acts between 1991 and 1997 the requirements for Long Term Financial Plans were introduced by the Local Government Amendment Act (Number 3) 1996. Some of the effects of this Act are considered in Chapter 8. There are other local government specific acts concerning rating, councillor's interests and official information². Some local authority activities have their own acts, i.e. the Dog Control Act 1996 which replaced the Dog Control and Hydatids Act 1982. This is referred to in Chapter 5. There are cross-cutting Acts which affect local government as

² The Rating Powers Act 1988 amended by the Rating Valuations Act 1998, Local Elections and Polls Act 1976 as amended, the Local Authorities Members Interests Act 1968, reprinted 1 July 1989, and Local Government Official Information and Meetings Act 1987 reprinted 1 April 1996. There are also council specific acts, for instance the Chatham Islands Council Act 1995 which dealt specifically with these small islands, replacing the previous Chatham Islands County Council, and the West Coast Regional Council (Loan and Rates Validation) Act 1997, which retrospectively validated the actions of the council in raising a loan to cover a financial shortfall.

well as other bodies, perhaps the most significant one during this time being the Resource Management Act 1991, reprinted 1994 and amended 1997. In comparison to the Scottish legislation there are fewer regulations issued and more detail is included in New Zealand primary legislation. (For instance, the Financial Reporting Act 1993 which specified reporting requirements was amended in 1997 to substitute “statement of financial position” for “balance sheet”, and “statement of financial performance” for “profit and loss statement”).)

Also in comparison to Scotland, New Zealand councils have a statutory independence, the 1989 Amendment Act stating their purposes, including providing scope for communities to make choices between different kinds of local public facilities and services. (The full statement of purposes is included at Appendix III.) The 1992 provision of legislative power to territorial councils to amend their own geographical areas, titles, and take over regional council responsibilities places the locus of future re-organisations with the councils rather than the government. Territorial councils have a general power which allows the planning, implementation and maintenance of any work that, in their opinion, is necessary or beneficial to the district (S247B(1)). The Official Yearbook (Statistics New Zealand, 1992)³ said:

Central Government is precluded from involvement in local-government decision making and is unable to overturn decisions made by local authorities. Although not subject to review by central government, local authorities are accountable to the Ombudsmen and the Controller and Auditor-General in the areas of administration and financing.

³ The Yearbook is produced annually by Statistics New Zealand, which is a Department of Government. Each part of it is contributed to by appropriate agencies: the local government section for instance had the Department of Internal Affairs and Local Government Commission contributing in 1994.

As part of council purposes the 1989 Act requires councils to exercise their functions, duties and powers efficiently and effectively and specifies elements of accountability required, which are subject to audit. Part of the accountability section requires the separation of regulatory and other functions.

The 1989 Act also specifies that territorial councils may carry out work and perform functions either by using their own staff or by entering into an arrangement or contract with someone else, the Crown, a local authority, state enterprise, public body, local authority trading enterprise, person or organisation. For significant expenditure councils are required to consider whether to go to tender, and if they chose not to follow this procurement route have to record the reasons for the decision in writing. This provision has been subject to subtle re-interpretation in the Yearbooks from 1994 to 1996 which state "Local authorities are required to consider putting out the delivery of all services to competitive tender." The same paragraph states that "Local Authorities are encouraged to corporatise or privatise their trading activities" (Statistics New Zealand, 1994, 1995, 1996). This is unlike the Scottish situation where corporatisation was not allowed, but tendering was required (in the Compulsory Competitive Tendering services) to give a comparison of internal service provision by business units with external providers.

In New Zealand there were some functions for which central government required corporatisation or divestment. The 1989 Amendment Act specified that passenger transport could not be provided by councils with effect from 30 June 1991, although there was nothing to prevent them having an interest in or wholly owning a passenger transport company. The Electricity Act 1992 and Gas Act 1992 required councils that had power supply operations to corporatise them by 1 April 1993. This was part of a wider move to promote efficiency in power generation, transmission and supply by forming companies

or trusts to undertake all parts of the power chain. However, there have been no more enforced corporatisations, and no enforced privatisation in the sense of selling off council assets to the private sector. (Although on corporatisation council services become Local Authority Trading Enterprises (LATEs), and these have requirements that some of the Directors shall not be councillors.)

The Transit New Zealand Act 1989 required that council maintenance and construction roading services that were subsidised by national funds be provided by business units or LATEs from 1992. Permissive powers were created for the Minister to determine the requirements for function and operation of business units but there was no definition set. This was later extended to design work on roads supported by central government. These instances are the only areas where central government imposed structure on local government services. One reason may be that New Zealand councils raise and are in control of most of the rest of their own income. There are guidelines on rate and charge structure but there is no rate capping and no general grant from central government.

During the 1980s and 1990s New Zealand moved rapidly from a welfarist to a neo-liberal economics driven economy (Larner, 1997). Larner sees one reason for the transformation as being “the undue influence of particular politicians, public servants and private sector interests in the reform process” (p10). There had been a national budget deficit in 1983, and it could be suggested that the sense of crisis this generated was maintained in order to further this influence (personal conversation with Keith Dixon, 2003). The main politician concerned was Roger Douglas at the Treasury, and business interests in New Zealand are strongly represented by the Business Round Table, seen by case study interviewees as a force to be mollified. The public servants concerned also came from the Treasury, where a group of public choice theorists, educated in the UK and USA,

prepared briefing papers for the incoming governments in 1984 and 1987. The first of these briefing papers led to “the delineation of new economic spaces within the state” (Larner, 1997, p16). The new economic spaces were created by separating out policy advice and regulation from implementation. Definition was added by accounting; quantified economic spaces could be treated as separate and potentially corporatised and/or privatised. From an initial intention to introduce clarity and efficiency with corporatisation, Treasury’s second briefing in 1987 was for competition to ensure efficiency and a minimalist state. Privatisation was not popular, but I noted, as did Larner, that “despite the apparent unpopularity of the so-called “free market revolution”, many New Zealanders have begun to frame their political claims in the language of choice, flexibility and the market” (Larner, 1997, p12). Certain expressions, such as “user pays” seemed to have been assimilated completely into the lexicon of desirability, along with efficiency and effectiveness.

The Yearbook (Statistics New Zealand, 1994 and 1995) gives five principles which guided reform of the state sector. Four of the five use both the words effectively and efficiently: State functions were divided into regulators, providers and purchasers, so that individual parts of the organisation had “unambiguous functions” and would operate efficiently and effectively. Where the community or private sector could provide more efficiently and effectively the state should not be involved. Where the state did provide through trading enterprises they would operate most effectively and efficiently if structured very much along the lines of private sector business. Managers would perform most effectively once made fully accountable for the efficient running of their organisations. The last of the five guiding principles was that the costs should be fixed through real market factors. Problems arising from this principle surface in Chapter 5.

There was rapid movement along the principles listed in the Yearbook. By 1996 the Yearbook could state that “the largest of the reform tasks appears to be over” and the state was looking at “minor structural re-tunings [to] continue to allow the state sector to function in the coherent and businesslike fashion the reform process has intended to encourage” (Statistics New Zealand, 1996, p 37). The government held the purse strings so could change the structure of the state sector as it wished. New Zealand has a unicameral parliament and small population. This leads to closely linked social, political and economic networks. Larner suggests that this means that the State has a “thin” nature which allows change to be rapid and dramatic (Larner, 1997). Although part of the public sector, local government is not part of the state sector, and its separate democratic and financial bases have provided inertia and insulation to some extent from the Treasury driven reforms.

Nevertheless the Treasury emphasis on good fiscal management led to the 1996 Amendment Act, which required among other things, a Long Term Financial Strategy (LTFS), from July 1st 1998. Some councils volunteered to fast track this a year early although there was no financial incentive to do so, unlike the assistance given to the pilot councils in Scotland. Some of the effects of producing the plans and registers are examined in detail in Chapter 8.

The power of local democracy was enhanced by the requirements in the 1989 Act that councils consult extensively with their public. Councils have to produce and publicise a draft plan which can be commented on by the electorate before finalising their budget and plans for the forthcoming year. The public took up the opportunity, with hundreds of submissions each year coming into the councils visited. There was evidence from both case study councils that the submissions were considered and had altered council plans,

and that councils were proud to be able to demonstrate that they took their electorate seriously.

Councils appeared to be enthusiastic about this and other parts of their adoption of what could be described as a modernising agenda. Some councils seemed more so than others. For instance some volunteered to be fast track for the 1998 LTFS changes. Other councils externalised almost all their provision. One council created business units for all in house work. There was a range of management structures, and in some councils these had changed several times. These changes were not forced on the councils, they were chosen by the councillors, acting with advice from officers and consultancy firms, and having consulted their public. Some of these changes are considered in Chapters 6 and 7.

In both countries councils have been subject to changes described as part of New Public Management (NPM) (Hood, 1991), more fully described in Chapter 3. It is not the intention of this research to evaluate NPM, nor to examine the extent of its adoption in the case study councils. Rather it is treated as part of the context in which the councils are operating and potentially as a source of impetus for change or menu of possibilities. In both countries central government promoted a modernising agenda for all parts of the public sector. In Scotland change was mandated for local authorities, councils were driven to their CCT destinations. With the change of government councils have a choice of route, but are being given the fare only if they choose in line with government thinking. To continue the simile New Zealand councils were given a road map and a stricter MOT regime.

Role of the Accounting Bodies

The professional bodies most involved in local authority accounting in the two countries are the Institute of Chartered Accountants of New Zealand (ICANZ) (until 1996 the New Zealand Society of Accountants (NZSA)) and the Chartered Institute of Public Finance Accountants (CIPFA) in Scotland.

The ICANZ is the sole accounting body in New Zealand, and its members work in all parts of the economy. Membership requires an accounting degree, further exams and practice. The Act that enabled the NZSA to gain its charter and change name also granted the members of the new Institute the sole entitlement to the title chartered accountant in New Zealand (Institute of Chartered Accountants of New Zealand Act 1996). At the same time it allows anyone to hold themselves out as an accountant or auditor to the public if they are suitably qualified. This means holding a certificate, diploma, degree, registration or similar qualification (not necessarily obtained in New Zealand) that is relevant to the practices of accounting and auditing. Any employee can use the title accountant or auditor, with or without qualification. Some of the accountants that took part in this research were members of the ICANZ, and some were accounting graduates⁴.

The existence of a single accounting regulatory body in New Zealand has eased the path for private sector accounting techniques entering the public sector. The NZSA set the New Zealand Accounting Standards, which applied to all financial statements produced other than for exclusively internal use. In 1991 these included a Statement of Public

⁴ Although the ICANZ does not control the accounting graduates it does have a very strong influence on their training through the content of the accounting degrees taught in New Zealand. If a higher education establishment wants to offer an accounting degree with the widest appeal then the degree content has to be certificated by the Institute in order that graduates can be accepted for the ICANZ qualification. So accounting graduates have learnt a body of accounting knowledge authorised and promoted by the Institute.

Sector Accounting Concepts and Public Sector Accounting Statements which dated from 1987. For “commercially oriented activities” the NZSA suggested that the general statements of accounting practice were appropriate, but that “service oriented activities” should have accounts “reflecting the costs of providing the services to the community during the accounting period” (NZSA, 1991, p343). This implies the use of accrual rather than cash accounting. The Standards state that for many public sector organisations the legislation lays down requirements and that these should be seen as a minimum, and that organisations and their accountants should also aim for compliance with NZSA concepts and statements. In the context of local authority accounting the legal requirements were specified by the 1974 Act. The 1989 Amendment Act specified the statements that were required and that the financial systems of the authority should be consistent with generally accepted accounting practice (gaap) recognised by the New Zealand accounting profession. Annual reports from councils in 1998 stated that they were in compliance with the appropriate section of the Act, 223E “which includes the compliance to comply with gaap”. The law and the profession were supporting each others’ roles in the determination of reporting requirements and financial systems.

The 1996 Local Government Amendment Act (no.3) introduced requirements for a long term financial strategy, a funding policy, an investment policy and a borrowing management policy. (This is covered in more detail in Chapter 8.) The financial systems section was altered to comply with the new requirements, this time omitting the reference to gaap and the accounting profession and inserting the requirement to “establish and maintain a system of internal control designed to provide a reasonable assurance as to the integrity and reliability of the financial reporting of the local authority” (S223F). The section on the Annual Report was expanded to include all the new requirements and more detail and specified that the audited financial statements be compiled in compliance with

gaap. There was no mention of the accounting profession, possibly because of the changes wrought by the Institute of Chartered Accountants of New Zealand Act 1996.

Another way in which the single accounting body helped private sector accounting techniques to become absorbed into councils was through accounting personnel. Prior to 1989 there were very few accountants in New Zealand councils, not least because so many councils were extremely small and financial records were maintained on a cash basis. From a survey in 1989 Dixon found that there were qualified accountants in only 27 of the 39 councils that responded (Dixon, 1990). By 1998 this research found 295 accountants, at least one in each council. The larger organisations with their new responsibilities for efficiency, public consultation, accrual accounting, business units and LATEs had more need of accounting techniques, and it seems likely that the accountants they employed brought private sector practice with them. A specific example of this is examined in Chapter 5.

In Scotland (as in the rest of Great Britain) CIPFA is only one of the six Consultative Committee of Accountancy Bodies. Without membership of one of these bodies accountants can not enter public practice. Within Great Britain as a whole CIPFA has a large membership in local government and a strong voice on local government accounting matters. The organisation originated from a meeting of local authority treasurers in 1885 and was originally titled the Corporate Treasurers and Accountants Institute, re-titled and incorporated in 1901 as the Institute of Municipal Treasurers and Accountants, and changed name again to the Chartered Institute of Public Finance and Accountancy in 1973 (Sowerby, 1985). As a result of these local authority roots and its dominance among council accountants CIPFA is the significant voice on council accounting. This voice is promulgated through Codes of Practice, Statements of Guidance, submissions to

governmental bodies, and post qualification training. CIPFA also provides training and qualifications for accountants and other managers in the public sector, thus effectively setting the syllabus for local government finance. Much of this is done through CIPFA's commercial arm, the Institute of Public Finance Ltd. (IPF), which also operates specialist networking groups like the Treasury Management Forum, and benchmarking clubs.

Another influential spin off from CIPFA has been the Public Management and Policy Association set up in 1998. This started life in 1983 as the Public Finance Foundation, described as being the research arm of CIPFA. The change is one of the many indicators that CIPFA has been attempting to reposition accountants and the finance agenda from the technical fringe of the public sector to the management core. Others include increasing the amount of management in the professional exams and the creation of the CIPFA Diploma for managers. Like the ICANZ, CIPFA is in the position of both setting the standards and being able to ensure that new entrants to the profession absorb them as part of the qualification process.

In Scotland the accountants in local authorities are a mixture of members of CIPFA, the Scottish Chartered Institute and the Certified Institute with a few Chartered Management Accountants, English and Welsh, and Irish Chartered Accountants. There is probably a greater mixture than in English councils, as CIPFA had very low numbers in Scotland at reorganisation in 1975, and there were a number of the new councils with experienced but unqualified senior finance staff. CIPFA numbers in Scotland have grown since, doubling between 1982 and 1995, with most of the growth coming by 1988. This research showed 632 accountants (excluding audit staff) in 29 councils in 1997, when the CIPFA membership lists gave a total of 358 for those councils. In the whole of Scotland there were 796 CIPFA accountants, of whom 388 were employed in local authorities. The equivalent figures for 2000 are 425 out of 964, so the influence of the Institute in Scottish

councils may still be growing, although without another total accountant count it is not possible to be certain. Between 1997 and 2000 the proportion of CIPFA members in Scotland that are employed by councils (as opposed to other parts of the public sector or the private sector or being retired) has fallen from 49% to around 44%.

The Rating Review has been produced annually since 1946 providing financial statistics covering all Scottish councils. This was originally compiled by CIPFA volunteers but in the last 15 years the Scottish part of CIPFA has grown from being simply a branch of the national body to having an office and staff of its own as CIPFA in Scotland, which now does the work on Rating Review as part of the secretarial services provided for the voluntary organisational structure. The non-administrative staff of CIPFA in Scotland currently number six persons. Two of these are IPF employees. This perhaps indicates the relative importance of the commercial arm. The most recent recruit is a Parliamentary and Media Officer, a post created to give CIPFA a resource dedicated to the Scottish Parliament. CIPFA in Scotland also provide the CIPFA input to the Scotland specific profession wide standards, including Statement of Recommended Practice (SORP) produced by Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The greater mix of accounting bodies represented in the Scottish public sector has led to more inclusive practices by CIPFA in Scotland, with training events and conferences open to all public sector accountants.

As the leading public sector accounting body in Great Britain CIPFA has a strong influence on the public sector accounting agenda. In Scotland, where the relationship between professional organisations and government has long been cosier than in England, CIPFA, in common with other professional associations, has played a part in defining and thus creating legislation. For instance the Performance Indicators introduced by the

Accounts Commission were amended in each of the two subsequent years following consultations with the appropriate professional bodies. In addition, legislation is increasingly being framed with reference to codes of practice generated by the associations. If a body is being consulted on appropriate accounting practices, creates the detailed standards to operationalise them, which then becomes law, and subsequently makes a profit from teaching and training that law then the distinction between governed and governors becomes blurred. I was asked by an economist why CIPFA had not created more fuss about the changes being imposed upon accounting in councils, the answer may well lie in this co-option of the profession by the politicians.

The Role of the Finance Function in Scottish Local Authorities

Cochrane (1994) reviews the dominant policy influences over the last 50 years of local government in Britain. He starts with the growth in the local welfare state and the bureau-professions described by Mintzberg (1983) up to the early seventies, during which time needs as defined by the professionals concerned strongly influenced policy. The inadequacies of this approach became more obvious as funds became more restricted. Improvements to services could no longer be met from budgets that in many cases were insufficient to maintain services at existing levels.

The Local Government (Scotland) Act 1973 (Section 95) specified that each council should “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”. This was normally part of the duties of the Director of Finance. The reorganisation of Scottish councils in 1975 supported the introduction of corporate management, usually involving all the directors. With the reduction in income growth the

management team was expected to co-ordinate the often conflicting demands of the various services.

As budgetary style became more resource-led than demand-led (Cochrane, 1994, p 148) Directors of Finance (equivalent of English Treasurers) became more influential on management teams. In retrospect Cochrane sees this period as a sort of golden age of treasuryship, when Rosenberg (1989) saw treasurers using “neutral professionalism” to resist political input to the financially constrained decision making of their councils (p180). During this period “treasurers set the rules of the game” and “seemed to keep a tight control over information which offered them an important source of power” (Cochrane, 1993, p34-35).

The subsequent development of financial techniques to handle the demands on the budgets had varying degrees of success. Different budgeting techniques were tried, became fashionable, were discovered to be better in theory than practice and were superseded by others. Finance staff became expert at anticipating central government announcements and assiduously cultivated their links with the civil servants at the Scottish Office. More circuitous ways of stretching the budget were attempted. These forms of “creative accounting” were seen as heroic by many in local government and were justified by the profession as being best practice to maximise what could be done within the constraints of central government. Each type of creative accounting was legal until what the civil service saw as loopholes were closed. As regulations became more convoluted to stamp on each practice the role of the Director of Finance became one of “miracle worker” to find another way of easing the shackles for the following year’s budget. Combined with the official search for value for money, creative accounting

confirmed the dominance of the accounting discourse and the authority of the finance professionals (Cochrane, 1993, p36).

Cochrane considers this to have been a first step in reducing the power of service departments, whose perception of needs to be met could not compete with the “superior set of tools” (1994, p150) at the disposal of the Directors of Finance. However he considers this period to be a “transitional phenomenon” (1993 and 1994) and that the dominance of the finance function was superseded by strategic managers and managerialism. At this point I take issue with Cochrane, because, rather than being superseded, I would argue that the finance function has been promoted and to some extent absorbed by any rise of strategic managers. He considered this to be a diminution of the political role of the finance department, “the spread of their language into all areas of the local state... means that they are everywhere and nowhere...” (1993, p31). But if “accounting information is moderating managerial vocabularies, proactively shaping and changing their conception of what is important and what is not...” (Hopwood, 1990) then an alternative view is one of the complete conquest by accounting: “we are all accountants now” (Cochrane, 1993, p39). There may be some support for his argument in the CIPFA Statement on the role of the Chief Financial Officer (CFO) in Financial Administration in local Government, issued in 1994 (CIPFA, 1994). This draws on the statutory basis of the Section 95 post and concludes that the CFO must be seen to contribute from the centre of the decision making process, i.e. be on the management team. This emphasis on the need for the CFO to be “in full knowledge of and participation in the key policy decisions” (p16) may possibly reveal a concern that the CFO was under threat of being excluded from the centre of power. On the other hand a statement from a professional body would be expected to emphasise the importance of its members.

As part of his view that the finance function in councils was losing its status in the eighties and early nineties, Cochrane suggested that CIPFA professionals were being undermined by challenges from consultants based in the (then) big five accounting firms. However events since then, with CIPFA training more of the private sector trainees, and more CIPFA accountants decamping to the accounting firms have ensured that CIPFA influences remain strong in local government.⁵ CIPFA (re)positioned itself as guardian of the new magic.

The finance role is not limited to financial control from the centre. This rather narrow definition excludes the development of strategic management skills by finance professionals, and the dissemination of finance awareness and accountancy amongst other managers. This was reflected by CIPFA, who developed a training package for finance for non-financial managers and adjusted their qualification to highlight the importance of strategic skills for accountants. As an accountant I trained non-financial managers in finance skills every year from 1991 to 1994, using in the last two years the package published by CIPFA in 1993.

Strategic managers had management skills that were supposedly politically neutral and portable from one sphere to another (Hood 1991). Although there may be such managers in Scottish councils this research found none where their expertise had been bought in from elsewhere, but several examples where it had been brought out, after traditional services have been combined and a manager from one of the disciplines has been

⁵ CIPFA membership employed by the private sector excluding overseas, water and power companies doubled from 1992 to 2000, and as a proportion of employed membership rose from 12 to 20 percent. Between 1995 and 2000 the numbers employed by Audit firms rose from 285 to 433, (from 3% to 4% of CIPFA employed membership.) In the same period CIPFA student numbers employed by audit firms rose from 126 to 140 at a time when student numbers as a whole fell by 32% (so the percentage of CIPFA students employed by audit firms rose from 4 to 7) (CIPFA Yearbooks, 1992, 1995, 1996, List of Members 1997, 1999 and 2000).

promoted. Where professionals in the health service had been promoted to management roles Ferlie et al (1996) found blurring of their roles for these “hybrid” posts. At the time of the case studies neither Scottish council had a generic manager in charge of any Department or service, but both did have people employed for their strategic skills at the next level down.

The Scottish case study Chief Executive Officers had come from traditional local authority disciplines originally, and relied on their Finance Directors not only for accounting and financial advice but also predictions of the resource limits that services would have to operate within. Cochrane predicted that Finance managers would lose power to strategic managers and retreat to their technical role (Cochrane, 1993), but there is no evidence of this in the Scottish case studies. Overall, as shall be seen, any expectation in the early nineties that the role of finance would diminish as strategic management became more important does not seem to have come to pass.

The Role of the Finance Function in New Zealand Local Authorities

The New Zealand equivalent to the Scottish Director of Finance had no statutory position. Although, as stated previously, the law requires councils to account in specific ways there is no obligation to appoint a person to ensure that it is done.⁶ Education, Social Work

⁶ The only legal obligation on councils is to appoint a principal administrative officer. The Local Government Amendment Act (No.2) 1989 specifies that each council shall appoint an executive officer to be responsible for implementing council decisions, advising the council and any community boards, employing all the remaining staff, ensuring functions, duties and powers are properly performed or exercised by themselves and other staff, and ensuring the efficient, effective and economic management of the activities and planning of the local authority. The name given to this post varies; some are called chief executive, some general manager or city manager. In this research the term chief executive has been used throughout. (The act also allows for a group of officers, one of whom shall be principal, but I was not aware of any councils to which this had applied.)

(and to some extent Housing) are not provided by councils in New Zealand, with two consequences: there is no distinction between statutory and non-statutory services within councils, and the budget is not dominated by these “welfare” services. With no statutory services claiming precedence in the share out of resources, and no “welfare” services responding to needs led demands, New Zealand councils had more choice in how their resources were allocated. They also had control over their income. That they had and used these choices is clear from the variety of services and funding proportions in different councils. As a result of these freedoms the role of finance professionals in New Zealand councils was mainly to budget and account correctly for the decisions made by the councillors. Dixon reports a perception that accounting in New Zealand councils was underdeveloped prior to the 1989 reorganisation; although he concluded that the problem lay more with financial reporting than accounting within the organisations (Dixon, 1991).

In 1992 I delivered training in finance skills to non-financial managers in a New Zealand council. It seemed that prior to 1989 there had been relatively little resource led budgeting and finance personnel had seen little development or need for value for money or creative accounting skills. That finance management desired more financial skills within the council was plain from the fact that my training was the second aimed at non-finance managers in a period of fourteen months, both having been commissioned by the Finance Director.

In the New Zealand case studies services were run by professionals from the service discipline, although they were more likely to have been recruited from the private sector than their Scottish equivalents. In one of the New Zealand case study councils strategic planning was provided by planners, and these people came the closest to Cochrane’s idea of managers of resource. Even so, when one of them was reporting a spell covering for

an absent engineering manager, it was with a sense of amazement that it had gone so well given her lack of engineering skills.

The Chief Executives in the New Zealand case studies had developed financial expertise along with the strategic skills needed for the post. The logic of strategic management dominating finance is that finance becomes relegated to a support role, and there were some signs of this in one of the case studies although it was not possible to determine how long this had been the case.

These sections on the role of the Director of Finance have relied on personal experience and (in New Zealand), Dixon, and (for Scotland), Cochrane and Rosenberg. Others have provided commentary on how local government works (e.g. Pollitt, 1990, Birchall, Pollitt and Putman, 1995, Asquith, 1997). Most of this relates to English councils, and perhaps abstractions from their condition are not completely applicable to Scotland and New Zealand. However, it is worth while examining the research, terminology and conclusions that were drawn about England in the absence of more country-specific work on Scottish and New Zealand councils. Councils in all three countries were, and are, being affected by what has been variously called New Public Management and New Managerialism. These concepts are discussed in Chapter 3, as although they contribute to the context of the councils at the time of the research their cause, content, and extent are debated, and there are several different views on their effect.

***Strikingly Different and Strangely Similar*⁷**

Scotland is a smaller country with a larger population than New Zealand: 5.119 million population in 7,708,674 hectares compared to 3.509 million people in 27,053,400 hectares. Despite the smaller population New Zealand has more councils, giving a mean population of 48 thousand per council compared with Scotland's 160 thousand. The councils in Scotland do not provide water and drainage services, or environmental protection. The councils in New Zealand do not provide schools or social work. Scottish councils could not corporatise services but had to subject certain services to competitive tendering. New Zealand councils had to corporatise or use business units for a few services. Scottish councils rely on government grants for three quarters of their income. New Zealand council's income comes from their ratepayers and service users.

For all these differences there are many similarities. Councils in both countries continue to provide most roads, regulatory services like planning and building control, amenities like museums and libraries, recreational services like reserves and leisure centres, and community support in the form of economic development services. Councillors in both countries are democratically elected to run multi-purpose organisations and have to allocate resources between competing and potentially conflicting aims. The accounting for council activities in the two countries is very similar, and has changed in much the same way over the last fifteen years. The influence of the professional accounting bodies and their positioning as part of the governing elite is comparable. A New Zealand council felt the same as a Scottish council, to the extent that I could call on my Scottish council experience to generate examples and case studies in order to train New Zealand council staff, and was told that the course was excellent because I had used local government

⁷ With apologies to Christopher Pollitt, who uses the expression "striking similarities and durable differences" as part of the title to his paper on NPM convergence (Pollitt, 2002)

specific material, unlike the New Zealand (private sector) accounting firm that had last provided the same type of training. The accounting that is done within councils and the role of accountants seemed to me to be very similar in the two countries.

The next chapter considers the theories concerning organisations, accounting, and public sector. It concentrates on those areas that seemed most likely to help illuminate the intersection of accounting and organisations in councils.

Chapter 3 Theoretical Background to studying accounting in local government organisations

This chapter sets out the significant ideas that underpin the theory used to support the approach to this research and interpret the findings. It concentrates on theories that were found to be useful in viewing how the findings answered the three key questions:

- how were people involved in local government using accounting and to what end?
- what was the role of the accounting profession in constructing the accounting that was being done?
- and what were the consequences, unintended as well as intended, of those accounting processes?

This chapter addresses approaches to the study of both accounting and organisations because this research stands at their intersection. Starting with approaches to organisational research and the nature of reality the chapter continues by discussing how these approaches became more acceptable for accounting researchers. The role of accounting in the social construction of reality is examined with reference to the powers of inscription and of numbers to dominate discourse with apparent objectification. The role of accounting in the creation of myth, and vice versa, and relationship between myth and self image lead into consideration of the ways in which myth is part of the creation of institutions, and the idea of institutions as a contribution to the consideration of councils as organisations and accounting as a profession.

The next two sections of the chapter examine reasons why the structure of councils, and particularly the accounting for that structure, can be similar, looking at isomorphism, legitimation and the New Public Management / New Managerialism arguments. The

theory used to design and carry out the research is in the next chapter on Methodology and Method.

The Analytical Terrain

Councils have a dependent financial relationship with the electorate and central government as well a legal relationship. More or less everything that a council does has financial implications. The relations between parts of a council, and between the council and its funders are underlain by money, and thus by accountancy which records and defines financial activity. Deconstruction of the accountancy that is being done seeks relationships, influences and choices.

In 1991 I was seeing changes from outside the discipline affecting accounting, which chimed with Hopwood's view that "... many of the shifting patterns of organisational and economic life are impinging on accounting practices, [and] the uses of which are made of them, ..." (145, Hopwood, 1990, p8). In the excerpt quoted in Chapter 1 Hopwood sees accounting as being used to build the new forms of organisation. In this later quote the view is of changes happening outside accounting changing what accounting was doing. The causal vectors flow both ways and reinforce one another, what Hines called the interactive and "mutually constitutive relationship between accounting and social reality" (Hines, 1989, p52). I felt that accounting seemed to be implicated in creating and also affected by the changes that were happening. Accounting seems intricately interwoven with organisational life connecting and articulating the organisation's activities in a commonality of costs and budgets.

A number of researchers in this area have called for or looked for a main reason, or a singular intent behind the changes that have afflicted the public sector over the past 20

years, as exemplified by Lowndes call to know more about what drives the manipulation of institutional forms (Lowndes 1996, p189). This search for ulterior motive as opposed to cause(s) is too simplistic. It fits too easily with the cry of “they are doing it to us” of councillors talking about central government, of the public talking about the council and of council staff talking about councillors, central government, other departments and the public. There seem to be multiple reasons for the changes, and they are discovered here through accounting, by using accounting practice to illuminate some of the processes and lead to some of the causes. Although centre stage, accountants themselves are rarely principals in the story, not least because “we never had enough time to lift our heads” (Q.163) as one of the accountants interviewed said, a condition with which I was very familiar.

Conceptual Framework

There are many ways of considering organisations and the phenomena associated with them. Much of what this study sets out to discover is not a matter of fact, but of perception. In that perception is subjective rather than objective, and examination of accounting in current circumstances in councils is closer to the sociology of regulation than that of radical change, this researcher is approaching the topic from Burrell and Morgan's interpretative paradigm which seeks an understanding of the subjectively created social world “as it is” (Burrell and Morgan, 1979, p28).

A researcher who works within the interpretive paradigm wishes to discover what people perceive about their socially constructed world. One of the forms of analysis that fits this approach is ethnography. The ethnographer interprets social discourse and inscribes it in a perusable way (Geertz, 1973). There are three types of ethnography proposed by Silverman (1985): cognitive anthropology, symbolic interactionism and

ethnomethodology. The search for meanings for actions and the subjective sense which accountants and managers make of their work places this research in the middle category, what Macintosh also calls interactionist sociology (Jönsson & Macintosh, 1997). This is an appropriate approach, especially for the first of the key questions: how were people involved in local government using accounting and to what end.

Looking for explanations behind the acts and attitudes requires building an understanding of the meanings of those acts and attitudes. To discover the symbol systems, and read what is being said in them, the researcher must go to the members of the organisation to observe and question. The result is sense making of the conversation and observations through the context of culture, (organisational paradigm, and institutional frameworks). There are three “hallmark” features of Macintosh’s ethnographic research: it is representational, interpretive and rhetorical. (Jönsson & Macintosh, 1997, p370) It lays down a story that can be categorised and interpreted, and is told in a convincing fashion.

As an insider I had knowledge of the changes that were happening but this was tempered with my puzzlement about what was driving those changes. Nevertheless the research is into an area of experience which I belonged to for 19 years - it would be very difficult not to have a fundamentally emic⁸ approach. If anthropologist Geertz's point that a researcher cannot become other, but only read the other's symbol systems is accepted it must also apply when the distinction of being other is a matter of history rather than geography. Although there are advantages to researching one’s own field of practice, there are also disadvantages associated with the ease of misinterpreting what is assumed to fit in with prior knowledge.

⁸ The term emic comes from linguistics via anthropology to denote a general orientation in research centred in the native, or informant's view of reality. The emic approach emphasizes respondent categories, meanings rules and behaviour. The orientation of outside researchers is termed etic (Morey & Luthans, 1984).

There are more pitfalls for the unwary: attribution theory suggests that people explain things in such a way as to give them a feeling of control over the event (Kelley, 1971 quoted in Pfeffer 1981).

Thus a preference or bias in favour of interpretations of power and personal efficacy will colour the explanations of action developed and held within the organisation. (Pfeffer, 1981, p4)

In addition to recasting stories in heroic mould people can also do the opposite, and cry *mea culpa*. So the researcher has to be cautious of both individual re-interpretations of the past and also particular histories that have become part of the myth of the organisation. If this myth is generally upheld then that is what the ethnographer is seeking as it is part of and caused by the culture of the organisation. There is a distinction here between understanding a generally interpreted view of events, and understanding that the interface between the researcher and interviewee may create selective responses from the interviewed. There are other potential pitfalls, such as the problem of researcher bias arising from the researcher interpreting the social construction that is reality (Scapens, 1990). These concerns are dealt with in more detail in Chapter 4.

It is only in the last twenty years or so that it has become acceptable for accountancy to be researched from the interpretive paradigm. Looking at organisational behaviour, Hari Das (1983) was one of a number of social science researchers who advocated qualitative research in the seventies and eighties. (See also Morgan & Smircich 1980). By the early eighties this approach had caught up with accounting, and Hopper and Powell were arguing for research into management accounting to broaden perspective from the technical and use organisational theory forms (Hopper & Powell, 1985). In his analysis

of the philosophical and social theories underlying accounting research Tony Puxty illustrated the wide spread of viewpoints with two definitions of management accounting:

....management accounting..., which is concerned with the provision of information to those responsible for managing businesses and other economic organisations to help them in making decisions about the future of the organisation and in controlling the implementation of the decisions they make. (Arnold and Hope, 1983)

....management accounting is a set of social practices that delineate the space within which the activity of the workforce might be made visible and susceptible to rational calculation. (Puxty, 1993)

Tomkins and Groves, using the ontological assumption sets of Morgan and Smircich⁹, suggested that accounting research could be based on any of the ontological assumptions and more research should be undertaken from the naturalistic perspective to help close the gap between research and the concerns of practitioners. (Tomkins & Groves, 1983a) Their article implied that the “scientific” research approach was too dominant. That this was found to be a challenging idea is evidenced by the three commentaries on the paper, and Tomkins and Groves’ response (Adbel-khalik & Ajinka, 1983, Willmott, 1983, Morgan, 1983 and Tomkins & Groves 1983b).

By the end of the decade it seemed that there was still a need to advocate this broader approach. Hines stated that major reconceptualisations of reality and accounting were needed to move away from the assumptions which she saw as underpinning mainstream

⁹ Gareth Morgan and Linda Smircich, arguing for more qualitative research in the social sciences, described a range of perspectives for viewing the world, from the objectivist “reality as a concrete structure” to the subjectivist “reality as a projection of human imagination” (Morgan & Smircich, 1980, p492). These ontological assumptions were the extremes of a scale embracing two of Burrell and Morgans’ four paradigms - the Interpretive and Functionalist (Burrell & Morgan, 1979).

accounting research. These assumptions included the idea that “... reality exists independently of thought, language and social practices such as financial accounting practice and research. Accounting information is an economic good, the demand for which relates to the fact that it reflects reality.” (Hines, 1989, p54). This echoes Arnold and Hope’s definition of management accounting quoted above. There was some movement away from this viewpoint; the following year saw Covaleski and Dirsmith building on their grounded theory to insert some structure into qualitative methods, Hopwood calling for accounting to be seen as an agent for change as well as a recorder of change, and even the British Accounting Review published Scapens on the role of case study methods (Covaleski & Dirsmith, 1990, Hopwood, 1990, Scapens, 1990). Nevertheless, Jönsson & Macintosh, (1997), still felt the need to make a case for ethnographic accounting research in 1997.

The arguments put forward by these academics have allowed accounting researchers to examine their research question and personal ontological assumptions and choose an appropriate research methodology as advocated by Morgan and Smircich (1980). The questions which I had been asking about accounting in councils could be researched in the 1990s from an interpretive paradigm, using an interactive ethnographical methodology. A more detailed explanation and description of the methodology and an account of the way in which the research was done are given in the next chapter.

The Interface between Accounting and Organisation Theory

On its way to becoming a discipline in which qualitative research was permissible, accounting research tried on several of the behavioural scientists’ clothes. Collins in 1982 saw management accounting as useful in communicating role expectations to organisation members, and sought to identify ways in which this could be measured and

improved (Collins, 1982). Boland and Pondy saw accounting as having both literal and symbolic elements needing to be viewed through a union of rational and natural perspectives. The symbolic aspects identified include ceremonial function, value clarification, the symbolic signification of accounting categories, and along with these the natural perspective includes political use of the accounting system. By understanding and transcending these aspects accounting could be used more effectively (Boland & Pondy, 1983). Both papers looked at “softer” (more subjective) aspects of accounting, but still saw their investigation as a way to hone the technical tool.

Although these were essentially normative papers other work at the time was interpreting accounting as a social construction: Burchell et al commenting that “once implemented, an accounting becomes an organizational and social phenomenon, there to be used for a variety of ends by a range of actors in an organisation” (Burchell et al, 1980, p22). As will be shown later, local authority accounting is used for a wide variety of ends, and not just by actors within the organisation.

Other aspects of organisation theory seemed at first less fruitful when applied to the accounting field. The work of management in defining organisational boundaries (Aldrich, 1971 and Deutch, 1953) referred to by Pfeffer in 1981 could be dismissed from the accounting perspective by Meyer on the basis that accountants settle boundary matters “by definition” (Meyer, 1983, p236). Legal and financial boundaries demarcate the external limits of an organisation (Llewellyn, 1998). The accounts provide a record of what has happened within the organisation, so by definition what is accounted for is in, and what has not been accounted for is out. The definition of what goes into the accounts is set by the accounting profession. This seems reasonable in a discipline constructed through rules.

However, the profession changes the rules to reflect changes in business or government or occasionally wider society, which can change the definition of what is in the organisation. A recent example in the UK has been Financial Reporting Standard 17 (Accounting Standards Board, 2000) which required organisations to include their pension funds on a full accrual basis within their accounts. The definition of the company boundaries changed to encompass the future pensions of fund members. The move to promote environmental and social accounts from companies is another area where the traditional boundaries of the company are being broadened. So although Meyer seems correct in that accountants do define boundaries by definition, when the definition changes the accounting profession re-creates the boundary.¹⁰ Although referring to explicit actions by the profession in respect of financial reporting this is a useful starting point for the second key question: what was the role of the accounting profession in constructing the accounting that was being done.

The role of the accounting profession in defining organisational boundaries with published accounts can also apply to the internal boundaries created by management accounting. In the research case studies accounting forms part of the definition of services or significant activities and provides the only commonly agreed definition of a business unit as will be seen in Chapters 5, 6 and 7.

¹⁰ Quite separate from the role of accounting in boundary determination for organisations the boundaries of accounting are being re-formed. The last chapter examined the evolving boundary of CIPFA's conception of public sector accounting. Earlier in this chapter reference was made to those who see accounting as reflecting reality and those who see it as constituting reality. In both cases the argument is between accounting as a technique and accounting as something rather more; more complicated, more central to the thing being accounted for, and more important. There are similarities to the use of boundaries to demarcate science from non-science (Gieryn, 1983).

The Accounting Role in Organisations

Traditional organisational theory saw accounting as a “technical artefact, in a reflective rather than a constitutive role” according to Llewellyn, (1994, p19) who agreed that accounting was part of “the production of the organisation rather than the organisation of production” (Cooper and Burrell, 1988, p106). Llewellyn saw part of the constitutive role as being the confirmation of legitimacy and boundaries for legal entities. What is in the financial accounts defines what is in the organisation. At the same time management accounting within the organisation helps to absorb uncertainties, and thus emphasise the boundaries. So accounting theory has widened from considering accounting as technology based on reality to also contemplate accounting as part of the social construction of reality (Chua, 1986). More than one view can co-exist: a belief in the social creation of reality does not necessarily preclude a more objective view of technology or science. Pfeffer, on examining management as symbolic action contributing to the social creation of reality, distinguishes between symbolic and substantive outcomes, taking as substantive tangible activities or actions that can be measured. The accounting outcomes such as budget allocations that he uses as examples of substantive outcomes suggest that at that time he considered accounting objectively (Pfeffer, 1981). Perhaps the symbolic leads to the substantive: looking at health care Chua describes accounting-led initiatives as having a profound constitutive role to play in shaping medical practice (Chua, 1994).

One of the ways in which accountancy performs is through the provision of symbols and the creation of mythology. Accountancy provides a language laden with scientific gravitas with which to discuss, monitor and potentially control activity in an organisation. Not only is accounting written down, invoking the power of inscriptions (Chua,1996), but by rendering events into numbers accountancy makes them seem more scientific, and

thereby imparts an objective and credible aura to something that is flexible and subjective. There are two problems here, one is that numbers dominate representations and thus non-numerical information is diminished:

Numbers do not intrinsically enslave, they do so when numbers which appear neutral to one set of debates are taken to be neutral absolutely, their persuasive power is decontextualised (both culturally and historically), their limitations as modes of representing social life are downplayed and their dominance rules out all debates about the political ideals and values which quantification itself expresses (Chua, 1996, p154).

The second problem is that the numbers themselves are not objective, but subjective interpretations of the situation. Discussing the teaching of accounting Chua describes the paradox of teachers, who know the language of numbers is imperfect, teaching students to seek more “rigorous” numbers (Chua, 1996). The actions of accountants in seeking to improve the figures they produce reify the concept of a correct cost. The English language goal of accounting is accounts that are “true and fair”. The implication is that the word fair is needed because more than one set of accounts could be true. Parker points out that in French – *fidèle*, and Dutch – *getrouw*, a single word conveys the desired meaning, yet “true and fair” is not treated as an hendiadys but as “true” and “fair”; mutual qualifiers (Parker, 1994). This research shows that many staff in councils believe there to be an objective single correct accounting, whether or not this is what is rendered by their systems and in the face of all evidence to the contrary. This appears to be an “incorrigible” proposition or assumption as described by Mehan and Wood (1975), one that is seldom articulated, but assumed as part of commonsense. So numbers dominate representations and the numbers themselves are more malleable than their “scientific” aura would imply.

However if, as Pfeffer (1981) suggested, the symbolic power of management may be less important than the content of managerial action, then the relationship between the visibility provided by accounting and any objective reality is irrelevant. The important thing is that managers confer credence on accounting figures by using them to plan, monitor and control activities. The figures become true in practice.

This ability of accounting to produce seemingly objective phenomena is one of the roles identified by Hopwood in his paper "Accounting and Organisational Change" (1990, p16) seeking understanding of "the ways in which accounting is embedded in processes of organisational change". The role is as a calculative practice, similar to Meyer's "expanded and flexible logics of assumed rationality" (1986, p355). The idea that accounting does not produce the correct figure but merely one of a range of possibilities lies behind Hopwood's most powerful role for accounting; that it creates particular visibilities of an organisation. This role is derived from Bentham's view of bookkeeping as a control science, along with architecture (1791). As a building may create spatial visibilities and privacy depending on its design (Foucault, 1977) so may book-keeping create visibilities and privacy out of abstract and abstracted phenomena. The selective visibilities of book-keeping have been elaborated in accounting and codified for financial reporting, creating pictures out of the invisible action of money both for those inside and outside the organisation. By enabling such a conceptual visibility to be created, accounting can play a powerful role in organisational and social affairs. It can influence perceptions, change language and infuse dialogue, thereby permeating the ways in which priorities, concerns and worries, and new possibilities for action are expressed (Hopwood, 1990, P9).

An example may be creating new cost centres on the accounting code list to establish a separation between strategy and operations. This may reflect a managerial separation, and be tangible evidence of the split, or may be the first step in establishing such a split. Alternatively the new codes could also be new clothes for the emperor, merely acknowledging the notion of separation, although even this in itself registers that separation is desirable.

The expansion of audit highlighted by Power (1994) creates an additional aspect to this. Audit is taught as a part of accounting, although the term is increasingly also used to describe a non-financial review of activities. Power suggests that audit is not passive but active, shaping the activity it examines, and framing the idea of accountability. No longer content with the apocryphal “bayoneting the dead on the battlefield” auditors are now deciding who shall be fighting in the first place – Hopwood’s visibilities writ large indeed. If Power is right then audit is one aspect of accounting which is creating change.

The alternative perspectives thrown up by Hopwood's visibilities may also contribute to a perception that any change, where the associated accounting is also changed, is being created by accounting or financial demands. In both cases accounting may be simply operationalising political desire rather than at the root of any change. Pfeffer (1981) proposes that it is easier to organise activity around a shared definition of technology rather than around shared preferences. It may be easier to use accounting to justify changes to structures within which employees operate rather than attempting to change their attitudes directly. It has happened that changes made for non-financial reasons have been cloaked in financial justifications to utilise accounting's symbolic power as a provider of 'facts'. Examples are discussed in Chapters 5, 6 and 7.

The role of accounting as constitutive agent for organisational purposes and activities is especially obvious in times of change (Burchell et al 1980, Hopwood 1983, Hines 1988). The relationship between change and accountancy in organisations is one of complex interdependency. Accountancy can create and / or reflect change. By operationalising change accountancy can move it from the realm of the proposed and discussed to the realm of the enacted. Being able to render an account of the change makes the change more substantial, coherent and persuasive, thereby possibly extending the change's influence or creating further change. Alternatively, or possibly at the same time, the tainting of change with accountancy may make the change more difficult to accept for those who see accounting as being antithetical to the purpose of the organisation, as exemplified by the librarian who denigrated the "accounting mentality of some councillors" (C.67). This does not necessarily reduce the effectiveness of accounting in operationalising change since a manager does not have to like something to do it. Indeed, if a manager does not agree with an imposed change the accountants or accounting can be blamed for insisting that it be done. The manager can thus comply with orders whilst remaining, and keeping the service, distant from the change. The manager's credibility as a defender of the service in the face of "accounting-generated" change can be maintained for staff and at the same time, themselves.

Hopwood (1990) suggests that accounting can be a lens to see what organisations wish to be visible and not visible and who makes those decisions. Ogden and Anderson (1999) looking at the UK water industry prior to and after privatisation suggest that accounting was used "as a resource by those with power in the organisation to impose their own definitions of the corporate world they wished to create on other organisational members" (p121). The implication is that accounting is being used by those who wish to effect (or affect) change. This was possibly the case in my research but rather than make this

assumption I was happier with going one step back with Hopwood's next point: the matter to discover is "from where have the new visibilities emerged?" Thus my initial question of "how accounting was being used in association with changes in management structures in local government" became "how were people involved in local government using accounting and to what end?"

Myth, Self Image and Institutionalism

It is suggested that organisations develop internal paradigms based on shared social knowledge (Pfeffer, 1981, Zucker, 1977, Brown, 1978). The paradigm enables participants to interpret actions and thus create the impetus to perform those actions (Zucker, 1977). This cognitive approach suggests that in an organisation reality, as perceived by most, is a social construct of shared meanings and beliefs (Berger and Luckmann, 1967).

Myth is a term for assumptions about the character of reality which can be interpreted in several ways. Even though a myth is fundamental to an organisation there can be an underlying consideration that it is erroneous or unsupported by evidence (Randall, 1962; Trice & Beyer, 1985). Meyer and Rowan (1977) seem to use the myth concept in this sense when they explain the emergence of certain formal organisational structures which have little to do with organisational efficiency. However their approach is based on the assumption that there is a correct or efficient way, which the myth contradicts. A looser definition of the word does not have to rely on a separate reality or correctness: myths can be seen as a shared collective belief which explains how the world functions – a mental global picture which establishes the degree of freedom (parameters) for the organisation's actions (Gagliardi, 1986). Alvesson and Berg call myth "a collective designation for the

social logic behind rational collective action” (1992, p13). It is in this sense that I use the word here.

Pfeffer’s work (1981) on management as symbolic action also proceeds from the premise that reality is socially constructed. For instance by creating sayings or new job or service titles management can redirect or attempt to redirect thought patterns (examples taken from Peters, 1978). The management time spent on an activity is a symbolic action indicating its importance. Examples illustrating these interpretations were scattered throughout the case studies in this research: for instance in one of the Scottish councils the time and seniority applied to Best Value was seen as much less than the official pronouncements merited, and convinced some that their management were not taking the process seriously.

The work of Boland and Pondy (1983) located accounting systems as part of the myth generators in organisations. Meyer, both in his commentary on Boland and Pondy and earlier with Rowan, says that complex societies create myths about work and organisations incorporate these myths and create their own (Meyer & Rowan, 1977, Meyer, 1983). Accounting structures are both societal and organisational myths. Their role can be seen particularly clearly in delineating what counted as real work (services and strategic activities) from overheads in Chapter 5.

Other work on organisational images has built on this cognitive perspective and related the strength of member identification with the organisation to their self image. If the individual’s concept of self fits with their perceived organisational identity then that person will have high organisational identification, even to the extent that “the attributes that they use to define the organisation also define them” (Dutton, Dukerich & Harquail,

1994, page 239). This could be expected in the case studies where many of the interviewees professed to be in the councils for what could be described as public service reasons. The language used by these interviewees supports the relevance of the concept of organisational identification: for instance the constant use of the word “we” to signify the council as a whole, the department concerned, and the smaller work units. The reported conflicts between parts of the council, or between councillors and staff, that were referred to earlier are not in contradiction to this identification. The “they are doing this to us” complaint about other parts of the council is founded on the assumption that “they” and “us” should be “we”, and on the same side, sharing the same organisational identification, and the complaint is that part of the “us” is letting the side down.

The nested organisational entities (section, department and whole council) that an individual can feel they belong to can create tensions in allegiance if there are different myths operating in the different parts. In a multi-function organisation like a council the various services may well have various myths operating at section or department level creating problems for management at the next level up. (For instance the Technical Services manager who has to operate with both the “creative” architects and the “functionalist” engineers, or the Sustainable Communities manager who has to deal with Community Education and Waste Collection.) These tensions may be made worse where a service is split into purchasers and providers as the ethos of the whole service has to encompass both approaches. Dutton et al (1994) suggest that if organisation members believe that the perceived organisational identity has been altered, either in content or in evaluation, then members are likely to modify their behaviour. So providers placed onto a “commercial” footing are likely to develop and sustain myths and identities that are different to those operating for purchasers. And strong organisational identification will prompt increased competition with those seen as non-members of the organisation.

Dutton et al refer, rather dramatically, to this as “the dark side of organisational identification” (P258). The interviewees who come from split services, and from services that see themselves as competing for work, feature in Chapters 6 and 7 which illustrate some of these tensions.

As well as illuminating the relationship between individual members and organisations, the myth perspective is core to the development of organisational identity that underlies institutionalism. Institutions are aspects of socially constructed reality, and describe the meanings that things, processes and structures have over and above their physical existence. Institutionalised acts are objective and exterior, in that they can be repeated by another and mean the same thing, and those meanings are understood by others (Zucker, 1977).

Some parts of socially constructed reality are highly institutionalised, for instance accountancy. The annual accounts produced by an accountant will not be the same as the ones produced by another accountant at a different time or for another organisation, but the meanings attached to the act remain the same. Highly institutionalised acts like this are difficult for an individual to change, and may lead “to a redefinition of the actor rather than the act”(Zucker, 1977, p730): an accountant who suggests biennial accounts would be considered a little crazy, even though this could be proposed to save time and money. Similarly the accountants in the case studies who represented service points of view which conflicted with the finance department constructed reality were described as having “gone native”, by implication not a proper accountant any more.

An institutionalised organisation is one that has a strong organisational identity, rich with myth and symbolism. In an organisation like this what people say is so becomes so with

little question providing that it fits inside the organisational paradigm. There is little requirement to provide individuals with self interested motives to achieve organisational aims, especially if those individuals have strong organisational identification.

Institutionalised organisations resist imposed paradigms; the more institutionalised, the more resistant. The formal rules and strong informal understandings which support the institution have to be changed in order that the new paradigm can operate. Those in power can change formal rules by decree, but this will not necessarily work on the informal understandings of what the institution is and how things are done within it. This may compromise the effectiveness of new chief officers and new laws: both may find circuitous circumventions being built around their clear new directions. But institutions can change if the change is, or can be portrayed as, within the existing paradigm, and /or is gradual. The changes that develop will become part of the myth, and shared understandings are likely to emerge to rationalise patterns of behaviour (Pfeffer, 1981).

Rapid changes mean that there is less time to develop shared understandings, without which the new organisation is likely to be less institutionalised than before. Each successive change leaves less institutionalisation and therefore less resistance to the next change. Combining that with the personnel turnover that often accompanies change means that organisations afflicted with rapid and continuing change present very little resistance to further change. One particular council in New Zealand, which is recognised as having moved a long way from the traditional council organisation by externalising most of its provision returned the comment on the questionnaire that “in these times of change you are taking us back into pre-history here, I have virtually no staff who were here in 1989” (AX.10). A number of the interviewees in another non-case study New Zealand council commented on the loss of what they described as institutional knowledge

with the high staff turnover they had been experiencing. The examples of institutional knowledge that were cited were mostly of operational understandings, for instance useful contacts in other departments, awareness of topics that were sensitive or budget negotiating histories. These examples are not part of the formal structure or rulebooks for the council, but seen as essential for smooth running. This particular council had severe problems with staff turnover, but the problems caused by loss of institutional knowledge were also mentioned in both New Zealand case study councils in connection with structure changes that had led to individual staff leaving the councils. There was no mention of institutional knowledge in the Scottish case studies.

Pfeffer gives examples of indicators of strong “organisational paradigm consensus: parsimony in communication, common stories and myths, similar causal maps and a high level of differentiation and integration” (1981, p19). All these indicators are clearly visible to some degree in each of the case studies, which demonstrates that they are to some extent all institutionalised organisations. The examples of lost institutional knowledge given by the high turnover council were cross departmental, which implies that the knowledge most vulnerable to change is that associated with the multi-disciplinary nature of councils. This seems a reasonable argument, as informal information is passed on by the type of everyday contact which would take place within a work unit, and paradigm consensus built through less frequent communications with other parts of the council would take longer to reconstruct after change of personnel. This may be a contribution to answering the third key question: changes in structure within councils, including those associated with accounting, could be producing an unintended result of loss of multi-disciplinary awareness.

In what she refers to as “New Institutionalism” Lowndes (1996) suggests three propositions which all allow for a broader and more inclusive interpretation of local government as institutions:

- (i) “Institutions comprise a set of formal and informal rules which structure social action and are shared within a particular organisation or community.” (p193)

The informal rules are the routines, customs, traditions and conventions that are part of habitual action. (North, 1990, p83) So a council can be seen as a collection of institutions within another institution, each with their own myths and paradigms.

- (ii) “Change and stability are stages in an institutional lifecycle”. (p194)

Even the individual in one of the case studies who had experienced four years worth of major structural change in her section felt this was not normal and expected that it would not continue. An institution relies on cultural persistence to maintain its essence. Continuous change reduces its ability to function as an institution. But continuous stability is not possible as far as councils are concerned. There are too many pressures for change inside and outside the institution, including those that are intended to alter the culture of the organisation, i.e. reduce the previous institutionalisation and replace it with something else.

- (iii) “Strategic action plays an important role in driving institutional change, whilst norm-driven behaviour is a key force in sustaining institutional rules over time.” (p195)

There was little evidence of generic strategic managers in the case studies although some of the managers were acting strategically in piloting changes. Some interviewees averred that continuous change is what is needed and everyone would get used to it, others thought that after change is over things would settle down. The many comments which

supported the idea of a public service culture suggests a norm-driven behaviour that provided Hood's "public service ethic" capital (1991) to sustain councils' administrative paradigms. However, with so much change around, and change being touted as a normal state for forward thinking councils, norm driven behaviour could also be a force for driving change. This challenges the previous proposition that institutional lifecycles have a stable stage. If change is the norm then there may be no stable period of any length, and therefore a continuing reduction in the strength of the multi-purpose aspect of the institution.

The set of formal and informal rules generate logics of appropriateness, (March & Olsen, 1983 quoted in Lowndes 1996) as opposed to logics of consequentiality from which they may have originally derived. Thus it is logical to do something because it is appropriate to do so rather than because it will bring personal rewards or achieve something useful. This fits comfortably with myth generation and organisational paradigms: things are done that way around here. Informal rules, being part of the myth, are more difficult to change, since what isn't stated is difficult to challenge. (This only works if the individuals who understand the informal rules are still around.) Informal rules allow new practices and approaches to be absorbed by the old by persisting after the formal rules have changed. This leaves the new "re-interpreted and implemented in ways which did not threaten existing values and practices" (Lowndes, 1997 p90).

Lowndes suggests that how change impinges on particular councils can be affected by the characteristics of the service concerned, the power relationship of the various actors and what Urry (1987) called locality effects. This last term usefully describes the context in which a council operates, comprising its self image, what it is now, its self-narrated history and its perceptions of the environment it is working in. Some parts of this are

easier to get at than others. The objective locality effects might include recorded under and overspends in the past; the subjective ones might include the myths and meanings that arose from those budget divergences. One of the interviewees described his council as being part of an area where the expression “fur coat and nae knickers” described a lot of pride but hidden poverty. This belief, which would be difficult to measure objectively, constrained the possible actions that could be taken. Each council is individual, and proudly so, and that pride creates a shell around what is thought to be distinctive, even if it might be seen as negative. Locality effects are important in moderating council’s reaction to change. Whether this is adequately recognised in central government and academic circles is questionable although Power has called for a “new respect for specificity” to enhance the value of the audit process (1994). There is an unresolved ambiguity about central government attitudes to specificity; the wish to place decision making and choice close to service consumers trips over the perceived political need for centralised control over standards.

Both “old” and “new” institutionalism can help explain how particular organisational forms become legitimated. The “old” type considers that the legitimated form is built from the myths, cultures and ascribed meanings of institutional members and the surrounding community. The “new” type considers how “institutional templates” in the wider organisational field become adopted. Both approaches contribute to understanding what Clegg described as “how things are done around here” (1990, quoted in Lowndes, 1996, p185). They also contribute particularly towards the third of the key questions about the consequences of accounting processes. Changes which result from people using accounting and the influence of the profession can lead to loss of institutional knowledge in a part of a council. This has the potential to damage the whole-council paradigm more than it damages that of smaller work units.

Isomorphism and Legitimation

Locality effects ensure that each council is unique. However there are similarities between councils in Scotland and New Zealand. Some of the similarity is due to the common history of local government and the previous status of New Zealand as a colony of Great Britain. Some may be due to the adoption of ideas from other bodies including other councils. The expression institutional isomorphism has been used to describe where an organisation (or parts of it) resembles another (DiMaggio & Powell, 1983). The shape or form is the same. The word is being used here to mean a strong similarity in structure rather than the precise correspondence meant by the word in the physical sciences, or the logical adoption of the same shape in particular economic environments of the rational behaviourists.

In their paper DiMaggio and Powell (1983) identify three varieties of institutional isomorphism/isomorphic processes: Coercive, Mimetic and Normative. Coercive isomorphism is demanded by the state, or other source outside the institution which has the power to force conformation. The shape that results is legitimate by definition; it complies with the law. Normative isomorphism results from professional or occupational templates of the 'one best way'. The normative form provides external legitimation for the organisation and (thus) comfort for the organisational members. A form divergent from the template may require justifying to external power holders; for instance the external auditors in the case of councils. Where there is no coerced or normative shape for an organisation any choice may be required to be justified to interested parties: customers may need to be convinced that a novel structure will deliver the goods; regulators will have to be convinced that the structure will enable compliance with regulations; creditors, financiers and owners need to be assured that a company structure is robust. Councils are under similar pressures from their funders and regulators:

ratepayers and central government. A short cut to achieving this legitimacy is using a format which has been accepted elsewhere. (This does not necessarily mean that it has proved to have been successful elsewhere.) DiMaggio & Powell suggest this mimetic isomorphism arises where organisations model themselves on others as a way of minimising the risks when faced with uncertainty.

The three categories are not mutually exclusive. Advisors and consultants present mimetic isomorphism as if it was normative, thus bolstering their value as experts and the credence given to their recommendations. The professional organisations templates although nominally normative can be effectively coercive. As was discussed in Chapter 2 this is the case for CIPFA pronouncements in Scotland which have regularly become 'good practice' and thence more or less held the force of law. For instance the Chairman of the Accounts Commission announced that as from the first of April 1996 (the start of the new councils) compliance with the CIPFA/LASAAC code of accounting practice would be enforced.

Another example of CIPFA extending the normative into the coercive was given when Audit Scotland reported that none of the 32 Scottish councils fully complied with CIPFA's code of practice, which sets out the duties and responsibilities of internal auditors. The report said "Those who need to improve significantly should look at new ways of securing internal audit" (Audit Scotland, 2001). Public Finance, the magazine produced by CIPFA's wholly owned yet autonomous subsidiary, headlined this news with "Internal audit in Scottish local authorities could face privatisation after a damning report from Audit Scotland" (Day, 2001, p15). The headline implied a more compulsory, legally enforced outcome than the report would have seemed to warrant. The Audit Code of Practice, like the accounting code referred to before had not only normative isomorphic

influence, but was being presented as coercive by the publication most closely associated with the Institute. The same shift from normative to coercive occurs in New Zealand where the standards set by the ICANZ became part of the generally accepted accounting practice which was legislated as applying to councils in the Local Government Act 1974. In partial answer to key question two some of the accounting that was being done in the research case studies is as a result of these normative *cum* coercive isomorphic pressures from the accounting profession.

Councils, parts of councils and individual officers and members belong to networks between councils and professional bodies. These networks are multiplying in number for two reasons: increasing specialisation of the professional bodies and benchmarking (given additional impetus in Scotland as part of Best Value). These networks provide routes for logics of appropriateness to be communicated, and consequently develop the legitimacy and legitimating powers that create isomorphic pressures. (from Newman, Raine and Skelcher, 2001)

The findings from the case study councils suggest that the largest source of mimetic isomorphism is institutional members themselves: the council officers who are part of the networks. Closer inspection suggests that this category can be sub-divided.

a) *fortuitous* mimetic isomorphism: where the chief executive has seen it in another place and thought “that's a good idea, it could solve my personnel / budgetary / political problem”, and

b) *justifying* mimetic isomorphism: where the chief executive has decided to do it to solve the problem and then says it's being done because it's being done elsewhere and it seems to work well.

A variation on justifying mimetic isomorphism is

c) *justifying normative* isomorphism, where the chief executive is still doing it to solve the problem but says “of course we are doing it, it's the only proper way”. These three sub-categories can be used to describe the same change of organisational form, starting with the fortuitous, then justifying with mimetic, and then normative narratives. One of the Business Units in the case studies appeared to have arisen from this sequence.

The common thread in these three categories is that they are bureaucratic forms imported by a council rather than forms exported to a council, as coercive and normative are. They have been brought in by institutional members rather than suggested to, or forced upon, the councils by outsiders. They all arise from examples in New Zealand, where there are practically no coercive and normative organisational formats. In Scotland, where councils are adapting to the relaxing of the coercive isomorphism created by the Compulsory Competitive Tendering legislation the two case studies appeared to be exploring a variety of forms. These ideas were described as arising from the particular circumstances and personnel involved, and no reference was made to other councils. The common thread linking the varieties of mimetic and justifying normative isomorphism is that the institutional members were aware that the form was possible. It would seem that a partial answer to key question one, how are people using accounting and to what end, is that councils choose structures which suit their circumstances and then, if this seems to reflect an isomorphic form, they use the isomorphism to justify their choice. This area is explored further in Chapters 6 and 7.

Isomorphic forms are just one of the concepts adopted by councils in order to legitimate their activities. Legitimation can be conferred by many real or symbolic actions. Newman, Raine and Skelcher suggest that legitimation can be gained by councils adopting changes that anticipate expected legislation (2001). Although there was

discussion in New Zealand of expected changes in legislation regarding water and roads services it was in the context of making legally required organisational as smoothly as possible, i.e. a pragmatic approach rather than any seeking of legitimation.

There is also a question of whether actually being isomorphic is required or whether virtual isomorphism is adequate to gain legitimacy. All the councils interviewed claimed to have service level agreements in place, but when questioned interviewees admitted that they were operating traditional recharge systems under a different name. Not all isomorphic forms confer legitimacy; during the 1980s many councils employed the creative accounting that Cochrane described as flouting CIPFA's universal rules (Cochrane, 1993b). These forms of accounting, for instance the use of leasing to avoid capital consent constraints which changed the shape of asset provision, may have been devised by more than one Director of Finance but once known about were adopted by others. This was certainly not normative isomorphism, since CIPFA did not advocate creative accounting, but it was mimetic as individual accountants learned what was possible from one another. Other, more acceptable, forms of mimetic isomorphism become the subject of normification – increasingly the Scottish Executive is using examples of “best”, “good” and “promising” practice to illustrate the direction in which it wishes Scottish councils to move. (Audit Scotland, 2004, Joint Services Group, 2004, but the reference could be to practically any guidance notes emanating from the Executive in the last few years.)

Legitimacy is sought more frequently by organisations which are uncertain or see themselves as subordinate (DiMaggio & Powell, 1983). Organisations which are highly institutionalised are less likely to suffer self doubt, but still may need to evidence legitimation for the benefit of their superiors. Changes in the political environment may

challenge the institutionalisation and reduce confidence. Self doubt is catching: leading to what Zucker (1991, p105) referred to as the “contagion of legitimacy” and potentially to subsequent isomorphism. Meyer's “Social environments and organisational accounting” (1986) and the discussion of it by Dirsmith (1986) describe accounting particularly as a legitimating function for an organisation. Chua explains this with Hopwood's second role: “Accounting information is particularly useful for legitimization activities because they (sic) appear to possess a neutral, technical rationality” (Chua, 1986, p617). It would be expected that councils uncertain about their position and dependent on central government would emphasise legitimating functions and this can be seen as one of the explanations of the Scottish councils’ heavy use of accounting. It could also be a result of the Scottish accountants seeking legitimacy within and as a profession: interviewees in both the Scottish councils described seeking a prescribed correct format for different pieces of accounting information.

Audit has long been taught as a branch of accountancy and contributes an additional strand to the professions’ institutionalisation and legitimating powers. The increasing presence of audit in parts of life that were not previously visibly audited was highlighted in 1994 by Power in “The Audit Explosion”. Although ten years ago now, the explosion shows no sign of falling back on itself. The audit culture discussed by Power seems to have become firmly institutionalised, not least in local government in Scotland.

Discussing the Performance Management and Planning reviews by Audit Scotland in the case study councils, I had expected to hear complaints about the additional burden these created for staff who professed themselves overworked. However, although no-one could point to concrete advantages gained by the councils from the reviews no-one thought that they were anything out of the ordinary. They were understood as being legally required

and were therefore observed, perhaps adding another strand of legitimacy to the activities of the councils.

As well as emphasising the role of the accounting profession, the growth in audit reflects positively on accounting by providing a legitimated expert voice to support accounting practice. The legitimation comes in part from the positioning by central government of audit as a solution to perceived public lack of faith in the institutions of the public sector. This policing mechanism seems to hold value even though it is sometimes difficult to see the benefits of audit – as Power pointed out, when audit fails the expectations gap is popularly filled with more auditing, which obscures the original problem (Power, 1994).

Audit New Zealand and the Accounts Commission for Scotland (the governmental bodies charged with overseeing local authority audit) are involved in much more than strictly accounting matters. Audit New Zealand provides consultancy services to the public sector. One of the New Zealand case studies had used it extensively on management matters that had a financial component. The Accounts Commission publishes the comparative Performance Indicators for all Scottish councils and an example of a more recent non-accountancy specific publication is *Made to Measure: an overview of Trading Standards in Scotland* (Accounts Commission, 2002). The Commission has duties to review management arrangements for value for money and carry out national value-for-money studies to improve economy, efficiency and effectiveness in local government. In line with Hopwood's third role, accounting in local government appears to have outgrown its spreadsheets. In partial answer to the second key question, one of the roles of the accounting profession in constructing the accounting that was being done was to link accounting into managerialism which has increased its legitimacy as a premier practice in councils.

New Public Management and (New) Managerialism

Hopwood describes accountancy as creating visibilities that allow the concerns of the external world to enter and influence affairs inside the organisation, and as such accountancy is:

... implicated in enhancing the visibility and salience of economic and financial phenomena. It provides a powerful means for confronting the social and the political with the economic. (1990, page 10)

This links it strongly with the 'new managerialism' described by Pollitt (1990) and Cochrane (1994). Although managerialism is a combination of several different and occasionally conflicting notions its acceptance as an approach is underpinned by the notion of the desirability of the market “as the best determinant of allocative efficiency” (Wistrich, 1992). This has become part of the environment for councils; “...idealised versions of markets and the private sector have become the measures against which the local welfare state is tested...” (Cochrane, 1994, page 152).

In 1991 Hood proposed that what he called the new public management (NPM) in the 1980s had seven doctrinal components:

1. Hands on professional management with named persons in control
2. Explicit standards and measures of performance
3. Greater emphasis on output controls
4. Shift to dis-aggregation of units
5. Shift to greater competition
6. Stress on private sector styles of management
7. Stress on greater discipline and parsimony in resource use

Hood derived these components from the various commentaries on the changes which were being seen in the public sector, and suggested that NPM could be interpreted as a combination of managerialism imported from the private sector and the new institutional economics. Both movements can be seen as (right-wing) political attacks on (left-wing) public sector values, and this conflict between ideologies colours, implicitly or explicitly, all the commentary on NPM. Chua for instance in the context of health care claims that the spread of reforms around the globe is often a matter of faith (Chua, 1994). The word doctrine is used by Newman and Clarke (1996) as well as by Hood (1995). "Faith" is used again to describe a big flaw in Britain's approach to public sector reform: "This is the blind faith that people wearing private sector hats will always perform tasks more efficiently than those wearing public sector ones" (Prowse, 2003). The discourse is closer to that of religion than that of management. The underlying concern of some commentators is that belief is all and there may be little of any substance in NPM except for the "rhetorical flourishes", an expression used by Cochrane (1994, p152). However, rhetoric may be all that is required to create or amend myths; the "more or less institutionalised meaning structures that order perceptions and actions" (Alvesson & Berg, 1992, p106). Once established, for whatever reason, they contribute to the logics of appropriateness within the organisation and affect what happens.

Organisational changes which are identifiably part of the NPM have happened. All seven components listed above can be seen in the case study councils. Not all at once, not all in one place, but examples of each can be found. Part of the reason may be that these NPM narratives have been pinned to changes that were taking place, not causing but justifying and legitimating management action. Part of the reason may be that the language used to promote NPM-consistent actions is difficult to gainsay: who would argue with replacing the needs of providers with those of consumers, giving choice rather than compelling,

replacing uniformity with diversity and dependence with self reliance (Newman & Clarke, 1996)? These dualities (along with moving from monopolies to markets) create an “almost unchallengeable ideology” (Cochrane, 1994) and are powerful appeals to the obvious. What they fail to do is address the unsaid, by ignoring the concomitant potential for loss of service resilience and equity and creation of additional risk and redundant additional layers of administration.

Hood suggests that criticisms risk concentrating on political rather than on administrative values, and if NPM is being advocated as promoting better administration, only administrative values should be used to measure the effectiveness of NPM. How possible that is remains questionable but he concludes that NPM promotes sigma administrative values to the possible detriment of theta and lambda values (Sigma – keep it lean and purposeful; theta – keep it honest and fair; lambda – keep it robust and resilient)¹¹ (Hood, 1991). If so, this would leave the public sector open to problems of inequity, corruption and failure. Certainly parts of the privatised public services have had their problems: Railtrack in the UK in 2001 can certainly be said to have failed, and the Electricity Corporation of New Zealand in 1992 ran into problems with resilience¹². However, for local authorities there seems to have been less reported incident. Hood suggested that this could be the result of an accumulated “capital base” of ingrained public service culture,

¹¹ Hood’s three administrative values are useful ways of describing aspects of administration. Changes can aim to emphasise one value rather than another, but they are not separable, and concentrating on one may lead to the detriment of the others. E.g. In order to ensure equitable access to services money may have to be spent on a minicom service for the hard of hearing, a gain for theta values at the expense of sigma values.

¹² The ECNZ is the major electricity power generator in New Zealand providing over 95% of electricity, around 70% of which is from Hydro electricity. In 1992 the country suffered a drought which reduced the power production. “Major power cuts were avoided by a combination of increased thermal generation, reduced hours of supply for domestic water heating and public street lighting and voluntary savings by consumers. Following the crisis the Government appointed an Electricity Shortage Review Committee to investigate its causes.” Among its recommendations were that the ECNZ should review the standards for security of supply, planning for cover for 1 in 60 years droughts rather than the 1 in 20 years drought previously considered adequate (Statistics New Zealand, 1995). The requirements of the Corporation to make a profit had obscured the need for power supplies to remain robust and resilient.

which would maintain the theta and lambda values but which would eventually be used up. Anecdotal evidence from parts of local government which became more “commercial” suggests that the capital base can be eroded quite quickly. For instance some of the business units created for CCT became quite entrepreneurial and abandoned the less profit making parts of their operations. In New Zealand one at least of the LATEs became predatory on the same basis. The staff of the Scottish further education sector, cut adrift from local democracy and given appointed boards in 1993 quickly found ways around their theta values by inventing ingenious ways to count the student numbers on which their income was dependent. However, the findings of this study suggest that, ten years later, the public service culture “capital base” is still being built up, at least in the councils examined in detail. This is despite these local authorities being in two of the countries, the UK and New Zealand, which Hood identified in 1991 and 1995 as having a high emphasis on NPM. New Zealand in particular was considered to have “an analytically driven NPM movement of unusual coherence” (Hood, 1991, from Pollitt, 1990, p56; Hood, 1995).

One problem for researchers has been that NPM encompasses many ideas that are mutually contradictory. There is no one new management. Lowndes identifies three orientations: efficiency, market and user, and suggests that management recipes consist of taking bits out of each (Lowndes, 1997, p85). Ferlie et al describe four models of NPM: efficiency, downsizing and decentralisation, excellence culture and a public service orientation of participation and accountability (Ferlie et al, 1996). Like Lowndes orientations these models are not mutually exclusive categories but threads of influence.

Much of NPM can be described as a drive for efficiency¹³ and a belief in the market as an engine of efficiency underlies the import of private sector management approaches. Efficiency is measured as a comparison of input resources compared to results. In the private sector accountancy provides the discourse for both. In the public sector accountancy can readily provide a measure of the resources used, but the results are less easily rendered. NPM attempts to overcome this in two ways: by conjuring results measurements (Hood components 2 and 3) and by importing private sector styles (Hood components 1, 4, 5, 6) in the hope that these hold the key to private sector efficiency. It is these two areas which provide a lot of the conflict. Private sector actions are (supposed to be) designed to achieve the accounting goals of profit, shareholder value etc., and may not contribute to public sector results. The difficulty in measuring results from the public sector has led to a range of approximations: outputs, e.g. the number of refuse bins emptied; performance indicators, e.g. the percentage of broken street lights fixed within 3 days of notification; satisfaction surveys, extensively used in one of the New Zealand councils; and outcomes, couched in strategic level language such as “improved lives”. The results needed to show efficiency have to be measurable and comparable (with previous periods, with other councils and with other providers). They have to be numbers. Elements of results that cannot be rendered as numbers become less important by not having their “persuasive power” (Chua, 1996), or are simply ignored.

The use of private sector styles and evaluating results by rendering them into numbers both contribute to the amount of accounting going on; “new management can be criticised as being finance led” (Lowndes, 1997, p88). This is a pervasive combination of accounting and managerialism so, by looking at and through accounting, particular

¹³ There are other reasons alleged as drivers for NPM including the reduction of the state (Savas, 2000), and the creation of opportunities for privatisation, although Newberry suggests that intent is concealed by rhetoric about efficiency and modernisation (Newberry, 2002).

aspects of NPM can be illuminated. In 1995 Hood expanded on the explication of his original doctrinal components to add possible accounting implications. Some of these accountings are concerned with management accounts: the expansion of cost centre numbers and more need to identify costs and understand cost behaviour, and some with financial reporting: adoption of private sector norms into accounting and concern with the bottom line. Again, like the doctrinal components, examples of these can be found in this research. And, perhaps because the research was concentrating on accounting phenomena, these accounting changes seemed widespread. Hood also predicts that co-operative behaviour becomes more costly within NPM organisations, and this provides an interesting perspective on the chapters on Business Units, where the Scottish councils appear to be becoming more co-operative and the New Zealand councils less so. As all the case study councils seemed to be displaying some of the elements of NPM perhaps Hood's prediction was too simple.

Another thread emerging from new managerialism is the development of councils as "enablers", the natural consequence of using competition to shape provision of services. As the attrition of competitive comparison with other providers moves service delivery outside the councils, the remaining parts of the council are increasingly concerned with planning and managing those contractual relations. This can be described as freeing up the councillors to concentrate on strategic issues. Some commentators saw this as a natural (and right?) progression with the next step being community government; a co-ordinating role (Brooke, 1989; Cochrane, 1993a). (A different sequence to Asquith (1997), who saw community leadership as being superseded by the businesslike council.) The Local Government in Scotland Act 2003 requires all public sector bodies to co-operate with the new role it creates for local government as lead organisation for Community Planning. This fits well with the user orientation, giving more consultation

and citizen input. Cochrane had questioned whether councils have the financial leverage to influence others effectively (1994, p158; 1993a, p4), but in the same piece of legislation the councils in Scotland are finally getting the “power to advance well-being” which would make some financial leverage possible. In New Zealand councils have had a similar power since 1989. Constraints on using it are entirely in the hands of their electorate. Does this bring a “share of power to the public” (Clarke & Stewart, 1992)? It seems unlikely that this question can be answered by the New Zealand experience because the fiscal relationship between electorate and council is so strong as to obscure the effects of permissive legislation. The strength of the New Zealand electorate in relation to their councils and in comparison to the Scottish electorate is discussed in the chapter on Tax versus Charges.

Some theorists have looked for NPM similarities between different countries and different parts of the public sector (Pollitt & Bouckaert, 2000; Ferlie et al, 1996; Flynn, 1996). A few have been found. Ferlie et al suggest that rather than a management fashion NPM is a major break point in public sector administration. However, Pollitt’s reading of the comparative literature comes to the conclusion that Osborne & Gaebler (1992) are in the minority with their belief that NPM is an inevitable global phenomenon (Pollitt, 2001). Estimation of the extent of similarity is hampered by the vague nature of much of the NPM prescription, what is meant by an expression in one sphere has turned out to be quite different to what is meant elsewhere (examples in Pollitt & Bouckaert, 2000, p190). This is compounded by the routine use of hyperbole and enthymeme by politicians in connection with public sector management reforms; what Pollitt & Bouckaert call “implausibly exaggerated and over-sure language” (2000, p189). Pollitt proposes a more detailed examination of what is meant by similarity and suggests that convergence in NPM can be more usefully considered by dividing change into four stages: discussion,

decision, action and results (Pollitt, 2001 & 2002). This achieves a split between the “discursive strategies” and the “accomplished practices” (p477) and removes one of the biggest sources of contention: that what politicians and senior managers talk about is not the same as what operational staff are doing. The first two of Pollitt’s stages of convergence set the scene for mimetic and normative isomorphism; a particular change does not need to have been enacted for it to become a logic of appropriateness based on assertions that it is a good thing and has been decided elsewhere. The research found many examples of convergence where the change only applied to the first or possibly first two stages, for instance the service level agreements discussed in Chapter 5.

A number of components identified as being part of NPM (Hood, 1991) have been imposed upon councils by central government, for instance performance indicators in Scotland and named Chief Executives in New Zealand. These examples of coercive isomorphism were both made requirements by legislation. However where central government has not dictated change it has happened in some places and not happened in others. Compared to councils, central government and some of the other large blocks of the public sector (like Health) have major decisions taken by one group of politicians. It could be expected then that a change which was deemed to be advantageous by those politicians would happen everywhere in that sector. Even so change does not hit all parts at the same time, and in the time delay new ideas intrude and lessons are learnt from changes made earlier, creating Pollitt’s “crucial temporal and contextual dimensions to management change” (2002, p476). With each one of the 32 Scottish councils and 86 New Zealand councils having their own decisions to make the scope for variety is even greater. These differences have been formalised by the volunteering of some councils to be designated as Fast Group Councils in New Zealand and Pilot Councils in Scotland. The opinion that New Zealand embraced NPM (Hood, 1991, 1995, McCulloch & Ball,

1992, Lawrence, 1999) seems to relate to the parts of the public sector that were directly financed by the Treasury; a much more patchy response came from the rate funded councils. Although the Scottish councils did not have the luxury of such financial independence and, of course, had to comply with the law, they were strongly disinclined to do what they were merely urged to by a government with which they did not agree.

Varied though the NPM research is, all, even the most critical papers, have the effect of promoting NPM convergence through discussion. By examining the extent and form of NPM and creating typographies of its emergence, other aspects of and influences on public management are being ignored or implicitly declared redundant. My experience and research in local authorities has persuaded me that NPM fails to capture the diversity of what is going on at any one time and therefore can only be, at best, a partial explanation. There are changes happening and practices continuing that elude even the broad range of generalised components attributed to NPM. That this is happening is acknowledged (Ferlie et al, 1996: Pollitt and Bouckaert, 2000: Pollitt, 2001 & 2002) but it is acknowledged in work about NPM.

DiMaggio and Powell suggested that organisations are not necessarily the product of conscious design (1991). At local government reorganisation in both countries (1989 in New Zealand and 1996 in Scotland), not all councils chose to design a new form, some simply adopted what had gone before. In any event, no sooner had the new councils been constituted than they started changing; as has been mentioned, in one of the Scottish case studies an interviewee came from a section which had had a major re-organisation every year for four years. The net effect is that it is impossible to say “this is what is going on in councils”. It may be more accurate to say “these are the sorts of things that might have happened, be happening or may happen, possibly to some parts of some councils”. It

therefore seemed more appropriate to examine the accounting that was happening in particular cases to discover:

- how were people involved in local government using accounting and to what end?
- what was the role of the accounting profession in constructing the accounting that was being done?
- and what were the consequences, unintended as well as intended, of those accounting processes?

Perverse Outcomes and Centrifugal Effects

Because accounting is not simply a technology used within organisations, but an institution in itself, treating it as an instrument can lead to unexpected results. The reasons why particular accountings are used do not always tie in with the normative reasons for that type of isomorphism. Accounting opens windows into an organisation. Councils are very individual in how they use accounting, so the windows show differing viewpoints. This applies particularly to accounting for activities within the organisation, as opposed to producing the statutory financial accounts, which although constructed to reflect what each different council does, are constrained to similarity by a legally required format.

As members of the institution of the council, accountants attempt to produce the windows that best fit what they see as the organisational paradigm, within the constraints of their allegiance to an institutionalised profession that exists outside as well as inside the council. Most of the case study accountant interviewees seemed to be individuals with high organisational identity, even those who had been recently appointed. The accommodations made to absorb the tensions created by the intersection of the

occupational institutionalism of accounting and organisational institutionalism of the councils were a feature of most of the accountant interviews. Some of these tensions were a result of non-accountants making choices which affected accounting. The answers to the first of the key questions suggest that of the four accounting topics examined in Chapters 5 to 9 only Overheads, in Chapter 5, considers an accounting treatment that happens primarily for accounting purposes. The other three topics, Business Units, Tax versus Charge and Shielding Budgets, are all concerned with accountings introduced primarily to achieve non-accounting ends. The role of the accountancy profession in constituting the accounting that is done, (the second key question) is most clearly in evidence in the chapter on Overheads, but is seen to delineate the options available to local authority accountants in the other topics as well. The accountants were required to make the accounting work for their councils within their understandings of the accounting and council institutions.

Meyer examined how managements cope with what he called “excessively rational accounting” (Meyer, 1983) and his four comments are used below to describe ways that accountants use to bend the formal rules in order to maintain the informal rules in a council. These choices can lead to a perverse outcome, in that the result may be different to that intended by the creators of the formal rules, and may even produce an opposite effect.

“Simple disimplementation”

An example is the drawing (but not dispatch) of cheques at the year end to pay bills that have not actually been received for goods that have not actually arrived. The reason it is done is to make sure that budgets are not under spent. Any under spending on a budget would be money lost to the service and could jeopardise future year’s budget figures by

being used to justify a reduction in the sum necessary to provide the service. By making sure that the budgets appear spent the staff concerned are protecting their service. I have experienced both service managers and senior accountants doing this, despite the basic rules of accrual accounting that specify that expenses should be recorded in the period to which they relate. One senior accountant held the cheques in his locked desk drawer until the delivery and invoice arrived. This could be seen as an interesting acknowledgement of the dubiety of the practice; if rules are to be broken at least the Finance Department is controlling the extent and approving the instances.

“Implementation of reiterated accounts”

There are many choices within the boundary of the rules about how accounts are drawn up. Within those choices accountants and others may present several versions of the same accounting until the accounts fit the desired outcome. Chapter 8 sees this method of innovation-within-the-rules being applied officially in the construction of the Review of Activities and Funding in New Zealand councils.

“Invention of costs, resources or benefits”

The use of the word invention implies something underhand, but the choices available within accounting allow accountants to include or exclude items as seems appropriate. This returns, despite all evidence to the contrary, to the idea that there is a “true” cost. Grant funding in Scotland is often distributed and rationed according to a formula intended to lever non-public sector support into particular projects. The formula assumes that costing for each project will be comparable in order that rationing is equitable and distribution is in line with the grant funder’s intentions. However, the discussion on costing for such projects revolves around the elasticity of cost and income definitions, for instance valuing assistance in kind and opportunity costs. A successful bid for a project

with costs constructed on these lines may not be achieving the leverage of private funds or equitable distribution intended by the grant funder. (It is possible that this is so widespread that grant funders build their formulae in anticipation, and so the outcome is not perverse.)

“Simple bureaucratic rationality”

Or allowing accounting categories to dictate management choice. The example given by Meyer was that “even at Stanford one can find buildings whose existence is justified mainly by the fact that the alternative was to give the money back.” (page 237) The equivalent in this study is creating projects to use bid funds to gain money that can only be gained for that type of expenditure, referred to in the chapter on Top Slicing and Budget Shielding.

One of the most insidious forms of perverse outcome is perhaps what I have called “centrifugal effects”. This can be seen as an extension of Meyer’s “excessively rational accounting” (Meyer, 1983). As has been observed by many of the commentators, local government is becoming more complex with a greater variety of agencies and providers involved (e.g. Lowndes 1997). The parts of the council are increasingly operating separately from one another, either because they are constituted that way, e.g. business units, or because their main supplier is not in the council but outside, or because their focus is increasingly on the customers. Some, but by no means all, of this can be seen as similar to Larner’s “new economic spaces within the state” in New Zealand’s national government (Larner, 1997).

By providing a common language for internal transactions and comparisons and an encompassing formulation for reporting all parts of the organisation to the outside world

accounting can be seen as a mechanism to allow a complex organisation to hold together. But the accounting examined in the case studies produces the opposite effect, and potentially allows the organisation to be pulled apart. These dynamics arise from the accounting adopted by management to achieve council specific goals. In contrast to the externally driven conceptions of change such as fragmentation and dispersal as discussed in Clarke and Newman (1997), the centrifugal impetus arises from within the council, generated by the logic of accounting practices implemented for other purposes. The accounting features within the case studies that are examined in Chapters 5 to 9 each explicitly or incidentally provides a centrifugal force to the council.

Summary

The areas of interest to this research are where accounting, organisational theory, and public sector administration/management meet, in the specific environment of local authorities in two countries a world apart. This chapter draws together theory from various parts of the social sciences, including accounting, in order to help explain and situate the findings of the research.

Given the extensive discourse on the subject, NPM formed part of the context for the public sector during the 1990s. There are arguments for it as a positive contribution to public service, and claims that it is spread extensively, but also arguments against it on ideological grounds and analyses that show it as more talk than action.

Several of the theoretical approaches in this chapter have particularly helped shed light on the key questions. Firstly, that accountancy and councils are institutions, composed of an amalgam of myth, routine and laws. An understanding of the strength of an institution,

especially accounting being based on the powerful myths of numerical inscription, helps explain why people would find it a useful tool to enlist to achieve their aims.

Second, that accounting helps constitute organisations as well as regulate them, not least by providing a conceptual visibility and boundary definitions of and within the organisation. If accounting is considered part of the fabric of the organisation an alteration in one will achieve a change in the other, so accounting changes may lead to and can be used to achieve non-accounting results. These changes can be initiated by people within and funders of local government and by the accounting profession. Changes intended to regulate may also affect what is to be regulated and / or be sidestepped, in the process producing unintended consequences.

Third, that organisations are susceptible to isomorphic pressures of various types including the normative influence of the accountancy profession on accounting and therefore the councils. However the categories of isomorphism proposed by DiMaggio & Powell (1983) are insufficient to explain the isomorphic effects of local government people selecting accounting devices from a menu of what has been implemented or discussed elsewhere. A chosen, rather than reactive, isomorphism seems to be a more common explanation for similar structures within councils.

The next chapter examines more closely the socially constructed nature of reality and the methodology employed to generate the research before getting down to the nitty gritty of the research methods and a description of each of the case study authorities.

Chapter 4 Methodology and Method

This chapter sets out both the methodology and methods employed in this research. The Methodology section continues from the last chapter in explaining the choice and use of interactive ethnographics given the researcher's paradigm and this research topic. The use and drawbacks of a qualitative research approach are examined, including the need for the researcher to be reflexive, aware of the possibilities of biased accounts being presented, and the potential for holistic fallacy leading to problems with interpretation of metaphor and language. The section also considers the incidental role of the researcher as observer / observer as participant, and the use of a whole field survey.

The Method section describes the methods that were planned to be used and how they were used, the reservations and potential problems that were foreseen, and those that were not. The section refers to Appendices IV, to IX, which contain the questionnaires and covering letters, interview agreement form and case study interview mix. The section also includes an introductory description for each of the four case study councils. The chapter concludes by explaining how the information from the case studies was analysed and topics identified to illuminate the key questions.

Methodology

This section concerns the theory behind collecting and interpreting and analysing information from an institution in a socially constructed world. The research problem is concerned with accounting in councils in New Zealand and Scotland in the 1990s and early 2000s, in particular three questions: how were people involved in local government using accounting and to what end; what was the role of the accounting profession in

constructing the accounting that was being done; and lastly, what were the consequences, unintended as well as intended, of these accounting processes? Much of the information sought to answer these questions is not legislated for or recorded but part of the meaning ascribed to accounting by managers and accountants within councils. I was seeking what people thought particular accountings were being used for, what happened as a result of their use and how the accounting profession had influenced those accountings.

As discussed in Chapter 3, I approached the problem from the interpretive paradigm, in the belief that much, if not all, of organisational life is a social construct and the relationship needs examining as it stands, rather than seeking a different order (Burrell & Morgan, 1979). Accounting is also a social construct, not only as part of these organisations, but also as a body of knowledge and as a profession. Councils and accounting are both constructed out of generally accepted rules. Some of these are formal, having been created by legislation or codified within the organisation; some are informal, being understood as part of the concept of “a council” or “accounting”. Even though the formal rules are written down, the inscription is subject to interpretation by the actors within these constructs. So to understand accounting and how it is used within councils requires understanding of the subjective meaning associated with both formal and informal rules.

Another way of looking at accounting and councils and their combination of written and generally held but unwritten constituents is to consider them as institutions: councils can be considered to be institutional organisations, and accounting as an institutional activity. To attempt to understand institutions the researcher has to discover the perceptions of members about the unwritten rules and interpretation of the written rules. As has already been mentioned I, as an ex-council accountant, have an emic perspective of this area, and

an understanding of the unwritten that constituted part of the particular council and time of that experience. This personal background, the quest for perceptions that the research question asks, and the espousal of the interpretive paradigm all accord with the use of an ethnographic approach, specifically Macintosh's interactive sociology (Jönsson & Macintosh, 1997). This research is an inquiry into the cognitive world of accounting in the councils, concentrating on the understandings that actors have and meanings they assign to how accounting is used.

Ethnography is essentially interpretive: "mediating two worlds through a third" (Agar, 1986, p19). The aim is to create a relationship between the traditions of the researched, the researcher, and the intended audience (Agar, 1986). Where, as in this case, the researcher is positioned somewhere between the institutions being studied and the audience for the report there are both advantages and problems, which are discussed later in this section. The report has to be persuasive: Van Maanen divides ethnographic writing into three types of tale: confessional, impressionist and realist. This last category is closest to the writing produced from this research; it uses "mundane details ... (of a kind that would only be available on the basis of first hand observation) and quotations from participants ... to show that the author knows whereof he or she writes" (Van Maanen, 1988, in Hammersley, 1993). The evidencing of reliability regarding the collection of ethnographic detail is returned to later in this section.

Another way of examining the understandings that constitute an institution is to consider it as a form of culture. So far I have avoided using the word culture because of problems with definition. Alvesson calls it "a word for the lazy": signifying "a broad range of intangible societal and organisational phenomena" (Alvesson, 1993). In relation to organisations culture can be seen as a part, which can influence and be influenced by

other parts of an organisation, or it can be seen as the whole of the organisation – with no “other” existing outside the culture. Smircich saw these views as variable metaphor and root metaphor (Smircich, 1983). Most viewpoints seem to fall between, or alternatively move between these part and global conceptions of culture. Alvesson suggests culture is an organising metaphor (Alvesson, 1993). Pfeffer regards culture as a paradigm metaphor, (Pfeffer, 1981), which is perhaps closer to my understanding. The reason culture is introduced here in the chapter on Methodology is that much of the methodological theory behind this research has been borrowed from research into culture and its roots in anthropology. For instance Spradley (1979) writes about the ethnographic interview and is interested in capturing culture by creating ethnographies. Thus he defines culture as “acquired knowledge that people use to interpret and generate social behaviour” (p5) and as a system of meaningful symbols. Spradley’s definition of culture would seem to be more of a received rather than created understanding and supports the freeze frame of an ethnography, rooted at the particular time of the research. He discusses the culture bound – those trapped inside that reality - as if culture is static and acquired rather than generated: “whenever people learn a culture, they are, to some extent, imprisoned without knowing it” (p10). Nevertheless the approach and some of the terminology that Spradley employs seems appropriate and has been borrowed to help understand the questions raised here even though these questions are concerned with the dynamics of the institutions of councils and accountancies and the resultant creation of new meanings. For instance his concern with learning the language and semantic differences drew attention to differences between “rates” in Scotland and New Zealand. In one country they are a minor finance issue, a small and uncontrollable part of council income; in the other they underpin the relationship, in many senses of the word, between the electorate and council.

There are problems with seeking meanings. They only exist in an individual's, (or possibly a group of individuals') understanding. What the researcher is attempting is to move meaning from one individual to a third, (the reader), without losing any part through misunderstanding, misinterpretation, clumsy analysis or poor inscription. Although the researcher may believe that previous experience will make understanding easy, the closeness of that experience to the subject matter may make incorrect assumptions more subtle and difficult to root out. Advice on field research into culture suggests that the topic studied should not be familiar to the researcher (Leach, 1982, Spradley, 1979). In order to see what is of interest the researcher has to be "other" to the institutional members and become a "cultural stranger" (Holloway, 1997), to recognise the unquestioned, unwritten stuff that is the essence of the socially constructed world that is sought.

Seeking meanings through an ethnographic approach, indeed with any methodology that involves the researcher interacting with the researched, may create part of that meaning. Chua described this as "...the reflexive, constructed outcome of a dialogical negotiation of multiple realities: mine and those which belonged to the fact-building actors ..."

(Chua, 1995, p113). An awareness of what one might be contributing to the conversation is necessary to qualify the evaluation of that conversation. "Most qualitative researchers will attempt to be aware of their role in the (co-)construction of knowledge" (Finlay, 2002, p211). Prior consideration of the attributes and orientations that researchers are bringing both to the research and the analysis should make them more aware of their contribution at the time. Examination of the results by this light should allow research interpretation that accepts and makes plain that co-construction. On the assumption that, in the absence of any evidence to the contrary, all concerned are acting in good faith it

seems wise to take Finlay's suggestion that reflexivity has its limits and avoid the "dangers of infinite regress" (p226).

The critical theorists would say that it was not possible to produce an unbiased account from ethnography; that there are always theoretical pre-suppositions (Dey, 2002, Jönsson & Macintosh, 1997, Thomas, 1993). By accepting the "inevitably context-based nature of understanding" (Llewellyn, 1993, p246) and stating some "conceptual infrastructure" (Jönsson & Macintosh, 1997, p378) the researcher can come clean about their own stance and produce a more adequate interpretation (Dey, 2002). Although I do not agree with the critical theorists about most things, I accept that it is not possible to produce naïve ethnographies or value-free theory from ethnographic research, at least, not from the research done here. However, this qualification does not disappear with the declaration of an ontological position, critical or otherwise. One advantage to stating theoretical baggage up-front is that the researcher is reminded of this personal filter and can choose to use it or attempt to put it to one side, thus increasing the range of view. Another advantage is that the reader knows which world view is sieving the informant's world view before inscription and consumption by the academic audience.

At its extreme this approach clashes with that of the grounded theorists, who intend to start with nothing and infer theory from the empirical data (Glazer & Strauss, 1967, Spradley, 1979). If the theoretic position is being stated to start with then certain theories will be privileged over others. The "dialogical negotiation" that generates research information will be channelled towards some things and away from others. And from this slanted sample slanted theory will be built based on pre-existing slanted theory. The final theory could be described as emerging from the field, but only as a result of the researcher pulling up those theories and discarding all the evidence they have categorised as weeds.

Dey suggests that Laughlin's middle range approach for critical ethnography may similarly risk foundational theories being over-emphasised, preferring the Jönsson and Macintosh use of ethnographic research, then critical analysis, followed by a return to the field with the analysis (Dey, 2002, Laughlin, 1995, Jönsson & Macintosh, 1997). This "methodological pluralism" uses the grounded and critical approaches but avoids attempting to combine them. It is a way of critical theorists accessing some of the insights available from the ethnographic approach, although it raises questions about the resolutions of tensions between emergent theory from the initial research and critical theory. All these approaches have limitations of which the user needs to be aware. Ethnography appears to be the most appropriate methodology for me to use to discover what people think is happening and why.

As well as being aware of what the researcher brings to the research there needs to be an awareness of what the actors import. Interactive sociology requires that the informants talk about their world. The way they talk, and possibly what they say, is influenced by how and in what circumstances they have been able to reflect on their world. It also seems likely that individuals vary in their desire and capability to be reflective. More senior officers may be expected to discuss their work more discursively, for instance with councillors, especially where there has been an element of advocacy involved. As an accountant one of the reasons I wanted to try academic work was to create the time to consider what had been going on around me in my employing council. It seems reasonable to assume that at least some other people in local government would be under the same time pressures as I had been. Particular organisations may encourage or discourage reflectiveness in their members. When examining the individual cases some of the interviewees in one of the Scottish and one of the New Zealand councils appeared to be answering some questions with pre-considered answers. The reasons behind this

seemed to be that the Scottish council people had considered the matters under discussion during their Best Value reviews and the New Zealand council people had been indulging in speculation about the effect upon themselves of the newly elected council. The question of pre-reflectedness of answers also arose within councils.

What was found was that those individuals who appeared to have most considered the topics previously gave complex replies to questions, outlining what they did, what they thought about it at the time, (and possibly discussed or reported), and what they thought retrospectively at the time of the interview about both the act and their thoughts and reasons at the time of the act. These were examples of second order (reasons for act) or even third order (analysis of act and reasons) replies (Agar, 1986). With some of the informants having been more reflective than others does this compromise the quality of the information derived from those particular interviews? What the interviews were after was the understandings of the interviewee of their world of work and the presumption is being made that they are reflexive actors. Any pre-reflected views come from within that world. Where interviewees are using views that came originally from others, it reflects an adoption into their world, either conscious or sub-conscious, of those views as appropriate. The information quality may be more complex, but is not less authentic.

There are two caveats to this: it is possible that the interviewee is giving answers which do not reflect any part of their reality but they believe to be “correct” in the sense of what managers should say or what the interviewer is seeking. Both of these cases should be visible to the researcher: cross referencing interview information with other interviews and other data should expose answers that do not fit (Lee, 1999). This may be the result of different perspectives on the topic. Good interviewing technique should minimise the bias of answers produced by leading questions, but is unlikely to completely mask the

interviewer's desires. The experience during interviews was that when interviewees gave answers that they seemed uncomfortable with they qualified them: "that's the way we should do it but what normally happens is ..."

Another concern is that rather than speaking in their normal way interviewees translate for the benefit of the researcher (Spradley, 1979). This loss of semantic differences between the interviewee's and the interviewer's worlds runs the risk of creating wrong understandings of what the words mean in the interviewee's context: the use of the word overheads in one council, rather than support costs for instance, revealed the engineering costing background to these accounting matters.

The methodology chosen meant that most of the data gathered was in the form of verbal answers and explanations. This was rich with metaphor. Even with small children metaphor is basic to language structure (Ashton, 1994), but this seemed particularly dense. Baxter and Chua (2003) consider that management accountant culture is essentially an oral one, with members using verbal communication to inform, negotiate and develop customised solutions to management problems. Everyone interviewed, not just the accountants, had an easy facility with descriptions and histories. Certain questions evoked particular images which surfaced repeatedly both within interviews and also across several interviewees. These insistent graphic metaphors are considered in the following chapters, especially Chapter 5. Metaphors illuminate central aspects and throw shadow on others (Alvesson, 1993, p9) and are "necessarily reductionist" (p26). There are parallels here with accountancy within organisations, and some metaphors are used to describe and support accounting roles, which suggest a selective presentation of a selective description of what is happening: potentially a very powerful combination which deserves attention.

Evaluation of metaphor is demanding of the researcher, for instance why is it used, where did it come from, how considered is it? By giving the thing a name that belongs to something else the difference has a cognitive function that “makes us stop in our tracks and examine it. It offers a new awareness” (Brown, 1976, p173). Particular metaphors seemed to be widespread within each case and some crossed case boundaries. Attempting to establish where these metaphors had originated provided additional views on the topic and influences at work, although any inferences drawn from this have to be tempered by the attraction of metaphors themselves. Alvesson warns against “catchiness – the excessive use of seductive metaphorical expressions” (Alvesson, 1993, p12). Widespread use of an expression does not necessarily indicate that the originator has influenced the users, nor that what it stands for has become absorbed by them. The researcher must also be cautious about their own response to metaphors; “an appealing metaphor may stand in the way of a less elegant but more accurate and elaborate description” (Alvesson, 1993, p12). The assumption may be made by both users and researchers that a metaphor that fits in one way also fits in others. Even if they know it does not, users of the expression may come to associate those other properties of the metaphor with its underlying meaning.

The language used by a speaker, even when not laden with metaphor, also freights meaning above and beyond the bare content of the words. “These linguistic choices can themselves perform ideological work by cueing the reader or listener to interpret or understand what is being said in a particular way” (Hastings, 1998, p196). And not only does the discourse chosen convey positive meaning but it also de-mobilises the opposition and may deny its very possibility (Clarke & Newman, 1998). Like metaphors and accounting, discourse may privilege some aspects of the world being examined, and

demote or deny others. These unbalanced communications help constitute the council and accounting institutions, (and cultures), and as such are “worthy of our attention” (Clarke & Newman, 1998, p23). When used in conversation with the researcher these communications may be more or less deliberately chosen, and re-visiting the topic with that interviewee, or others, may throw light on the choice and the provenance of the expression or accounting used.

These choices of language, metaphor or accounting to describe activities or decisions require the researcher to consider both what is and what is not being said in order to retain the “otherness” essential to ethnographic enquiry. The matter is further complicated by the subject matter: non-accountants may view accounting, at least in part, through their experience of accountants. If this is so service managers who have had a good relationship with their accountants may regard accounting in a more positive light than those who have found their accounting support distant or unfriendly. Within organisations perceptions of accounting can crystallise around the persons of accountants. This anthropomorphism of accounting may colour attitudes to financial information, and influence how people feel about accounting. By asking each non-accounting informant about the service their section received from Finance there was an opportunity for them to air grievances and retail past comparators. Where an extreme view was expressed it could be used to frame the analysis of their interview.

Only some of the council people are accountants, only some of the accountancy profession are in councils. There can be a tension between the meanings that are part of the council institution, and those that are part of the accountancy institution. Accountants who work in councils have to cope with these tensions. Although this is an interesting

and productive area to examine, it creates an additional barrier to understanding if the researcher (or indeed the researched) does not know which hat is being worn.

The interviews, being at their workplace for the majority of the interviewees, inevitably involved a certain amount of observation of the individuals, the work situation and the individuals in their work situation at their desks, eating in the canteen, being in corridors etc. Participation and/or observation studies are methods frequently used for ethnographic studies, in particular ethnomethodology which focuses particularly on the social practices of the actors rather than their communications (cognitive anthropology) or meaning (interactive sociology) (Jönsson and Macintosh, 1997). The range of participant and observation studies is commonly grouped into four types: complete participant, participant as observer, observer as participant and complete observer (Waddington, 1994; Lee, 1999). The concentration on meaning in this study has required most of the data to be collected from the actors who generate that meaning, which required talking with them. Interviews, although not a participant / observer method in the usual manner, create a situation where the researcher participates in and can observe the generation of data. In addition to this the attendance of the researcher at council meetings and social gatherings, while obviously closer to the complete observer role, has a little of the observer as participant. The council meetings that I attended had few members of the public watching, so any additional ones must have increased the sense of being watched or monitored for the councillors and officers involved, especially if they knew that one of the members of the public was a researcher. These little pieces of observation contributed to the picture being built up of each of the councils, the situating of interviewees within them and the interpretation of the interview content. For instance it was possible to observe from the council meetings at NZ1 that the relationships between certain chief officers and certain of the experienced councillors were mutually supportive, whereas the

interviews implied problems with councillors in general. In one of the Scottish councils a Head of Service had been very positive about developments in his service; observing the interaction of other officers with him after problems had arisen there was a strong sense of *Schadenfreude*, which coloured some of his original comments as possibly self-promoting.

These issues are all part of the challenge of using an interpretive methodology. Some of them can be anticipated, and the method designed to reduce the problem, but understanding is essentially subjective, and as such remains a caveat to all findings about the socially constructed world.

Sieber (1973) saw problems in using field work alone (without survey), these included “elite bias” and “holistic fallacy”. Although ethnographic methods may suffer from these problems they cannot be eliminated in this research by triangulating with survey work. Elite bias, where more attention is paid to the higher echelons in a society than to the more lowly, can obscure a view of the whole organisation. Does this research suffer from elite bias? Yes, intentionally, because the study is into the views of the managers and accountants who are sufficiently senior in the councils to participate in and/or have a personal stake in the operationalising of the accounting being examined. This is not to suggest that others in the councils may have no views but that there is no intent to seek a whole organisation view, even assuming that there was such a thing. Amongst other reasons Sieber suggests that bias can arise where the elite are the gatekeepers to the researcher’s access or because the elite may be more articulate. Although not the reason for my bias towards the elite both of these reasons held good for this research: my access contacts were among the elite (in the top three managerial levels) and my interviewees were articulate.

The problem of “holistic fallacy” arises with a “tendency on the part of field observers to perceive all aspects of a social situation as congruent” (Sieber, 1973 page 1353). Where it is established that there is some agreement among society members on one topic this may be extended by implication to a related topic. This possibility of metonymy, where two aspects of a thing are logically associated but not logically isomorphic (Hood, 1998), is an ever-present rhetorical pitfall for analysis of the rich contextual data produced by ethnographic techniques. It echoes the interpretation problem of metaphors: one aspect of a metaphor may illustrate well, other aspects of the same metaphor may not. This could be described as a form of linguistic holistic fallacy.

Another of the concerns arising from “holistic fallacy” is that exceptions may be discounted in favour of generalisation. By using a survey after the field work some estimate can be made of the extent of the exceptions, and therefore the need to refine the theory generated from the generalisation (Sieber, 1973). However, the heuristic nature of interactive ethnography, applied to the collection of data and the data itself from each case study means that outliers among the data provide trips, or “breakdowns” (Agar, 1986, attributed to Heidigger). Where a breakdown is found the difference has to be resolved with an account that eliminates it. This is the essence of building bridges between the traditions of the researched and the researcher. The coherent resolution may resolve more than one breakdown and elicit an “ah-ha” reaction (Agar, 1986). This was the case when I finally understood that New Zealand organisations have a morning tea break which is a social occasion called “smoko”, held in a canteen or separate room. This helped explain the use of the term, (not necessarily anything to do with smoking), some of the references to smoko-rooms and the additional opportunity for the New Zealand cases to share operational information across the services. Rather than ignoring outliers as

untypical (the holistic fallacy) or using surveys to quantify how unusual they are (Sieber's suggestion), they can be used to re-examine the coherent resolution which they challenge and a new resolution may be reached. Or possibly not; integration of the information into one pattern may not be possible, and acceptance of the conflict and disharmony between different viewpoints may be required (Agar, 1986).

Not all of this research used an ethnographic approach. A questionnaire was undertaken at the beginning for each of the countries in order to help establish the range of councils and where I might look for those ethnographic meanings. A survey can improve the design of fieldwork by identifying both the representative and unrepresentative cases, the representative cases "serving the goal of generality" and the unrepresentative "the function of theory refinement" (Sieber, 1973, p1352). Given the relatively small field sizes and idiosyncratic nature of councils it seemed unlikely that there would be a "representative" council. The intention of the surveys was to identify the least representative cases in order that they could be avoided. This was in the hope that less un-representative cases might produce conclusions that could be tentatively considered in the context of other councils, including the less representative. The selection of these less-unrepresentative cases is explained in detail in the next section.

Any piece of research needs to convince the reader that the work is reliable and the conclusions valid (Lee, 1999, King, 1994). Reliability allows the reader to believe that the research methods have found what was there to be discovered. Qualitative research relies on acceptance of methodology and appropriate choice and use of methods rather than the strict application of statistics looked for in quantitative approaches. In this methodology section, and the following methods section I have tried to explain my approach and actions to generate research data that is a good reflection of the worlds

being examined. My conclusions are generated from that data for those cases. I claim no greater validity for the theory, the intention here is not to create a generalised understanding that needs testing against the remainder of the field to see how well it holds but to create a more comprehensive understanding of what is happening in each council. From those cases theory can be drawn which may apply to one, some or all of the cases. Theory which appears to hold good for more than one of the cases may be worthwhile testing in other councils, and there may be some aspects of it that can be probed by survey. Recommendations for further research come in the final chapter.

Method

The use and choice of case studies

The research looked within a particular organisational field – local government - in two countries – New Zealand and Scotland. My starting point was that accounting and structural changes in councils seemed to be interrelated and that individual councils were using accounting in different ways. From this emerged the three key organising questions. Firstly, how were people involved in local government using accounting and to what end? Secondly, what was the role of the accounting profession in constructing the accounting that was being done? Lastly, what were the consequences, unintended as well as intended, of these accounting processes? I was seeking the perceptions of actors within the councils about issues with an accounting aspect in order to build up a portfolio of answers.

Unearthing perceptions is time consuming, requiring the establishment of one-to-one relationships that allow for sharing and interpretation of opinions. With some 117 councils each employing staff in many disciplines it was clearly impossible to discover

those perceptions for the whole organisational field, so some selection was required. A limited number of councils would be used as case studies to discover perceptions in those particular organisations. It seemed possible, given the constraints of time and finances, to examine perceptions in four councils, two in each country. More than two would compromise the amount of time that could be spent on each, and concentrating on just one in each country, while allowing more time for in-depth studies, would rule out intra-country comparison which might assist in contextualising findings. Accepting that there would not be representative councils (or if there were such things that I could not identify them as such), I nevertheless sought to find cases that fitted within the generality: not too large nor too small in either population or area, not excessively rural nor urban, nor any other obviously unique feature.

Council size

Using population as an indicator for size the councils in both countries were classified into groups using size jumps as group boundaries. With the population of New Zealand being around 70% that of Scotland, and there being more than twice as many councils, it could be expected that the average council size in Scotland (160,000) would be three times as large as that in New Zealand (48,000). The size distribution in the two countries varied. New Zealand had more small and medium councils and few large councils compared to Scotland.

Table 1 Classification of New Zealand Territorial Councils: by population size

| | Total | Very Small | Small | Medium | Large | Very Large |
|------------------------|-------|--------------|------------------|------------------|------------------|--------------|
| Cities | 14 | | | | 5 | 9 |
| Districts | 55 | 15 | 11 | 15 | 14 | |
| Unitaries | 4 | | | | 4 | |
| Totals | 73 | 15 | 11 | 15 | 23 | 9 |
| Population Range | | Below 12,000 | 12,000 to 20,000 | 20,000 to 35,000 | 35,000 to 80,000 | Above 80,000 |
| Population of smallest | | 3,800 | 12,500 | 23,000 | 37,000 | 95,000 |
| Population of largest | | 11,000 | 19,000 | 34,000 | 76,000 | 337,000 |

Table 2 Classification of Scottish Councils: by population size

| | Total | Small | Medium | Large | Very Large |
|------------------------|-------|--------------|-------------------|--------------------|--------------|
| Unitaries | 32 | 4 | 13 | 6 | 9 |
| Population Range | | Below 50,000 | 50,000 to 130,000 | 130,000 to 160,000 | Over 160,000 |
| Population of smallest | | 19,800 | 80,000 | 133,000 | 179,000 |
| Population of largest | | 49,000 | 122,000 | 151,000 | 616,000 |

Because I was looking at perceptions of accounting the case studies had to be large enough to have several accountants working within them. This was unlikely to be a problem in Scotland, where one of the smallest councils reported six accountants, but 26 of the New Zealand councils had a smaller population than that council, and several of these only employed one accountant.

However with so many of the New Zealand councils having small populations (in comparison to the Scottish ones) I did not want the New Zealand case study councils to be too large. This in turn influenced my choice of Scottish cases. I didn't want to introduce differences between the findings in the two countries simply because the case studies chosen were too unlike in size. So the very small and small New Zealand councils and the large and very large Scottish Councils were eliminated from consideration. In choosing the case study councils I took into account three considerations: published data, questionnaire returns and accessibility.

Published data

The published data about councils in each country provided a series of dimensional frameworks within which each council could be placed. In particular Rating Review, (CIPFA in Scotland, annual) published for the Scottish Councils, gives area, population, revenue and capital expenditure. The last three of these are further detailed to provide client group sizes and service costs and income. Information from the Directory of Scottish Local Government (COSLA & SLGIU, 1998) provided the number of councillors, committees, and directorates for each council. Statistics about the New Zealand councils were gathered from the Yearbook (Statistics New Zealand, 1996), and the Local Government New Zealand List of Member Authorities and web site. These provided the population of the councils, rural/urban mix, and numbers of councillors and directorates for each council.

Questionnaires

I used questionnaires in order to find out as much additional information as possible about accounting in local government in each country. The information from these questionnaires, combined with published statistics, provided a context from which to

select councils as case studies. The questionnaires were different for the two countries, reflecting the different legislative framework.

As the information gleaned from the questionnaires was to be used to enhance the publicly available statistics to create a richer context for the decisions on the main part of the work it was important that the questionnaires had a high response rate. I planned to achieve this in two ways. In Scotland the questionnaire was addressed to the individual holding the Director of Finance post or equivalent. Slow responses were pursued through reminder letters and then personal contacts in the councils. In New Zealand, where I did not have the advantage of personal contact in most of the councils, I planned to speak to each of the Finance Directors to enquire for an appropriate contact name before sending the questionnaire. This took a couple of days on the telephone, but allowed me to talk in person to the contact, in several cases for some while. Effectively these phone calls established a personal obligation to complete the questionnaire when it arrived. Late responses were again pursued with reminder letters.

Using this instrument the research was not seeking individual perceptions but information that could be described as commonly held facts. (Although one of the questions in the New Zealand questionnaire “was there a particularly significant change [in structure]?” was seeking an opinion as to what senior finance considered important.) The other questions such as “Since reorganisation which services have been sold by the Council?” or “What software do you use for your ledger?” were seeking replies which would be in the council minutes or financial procedures. Therefore the questions had to be framed to avoid requiring answers that were known by the respondent to be opinions. The questions asked for details of accounting provision within the council as a whole, and information about changes to committees and officer structures. There was a potential for

erroneous returns caused by inadequate organisational or historical knowledge of respondents. Some of the questionnaires were returned with comments that reflected this, stating that the respondents had only been in post for a short while and had had to ask others for historical details. It seems likely that errors would be of omission, where the respondents had forgotten or did not know for instance about previous changes or accountants working in other parts of the council.

It was planned that once draft questionnaires were completed they would be passed to local government contacts for comment as to clarity. In both countries pilot versions would be sent to senior council finance staff for completion. After any amendment to incorporate points raised in the trials the questionnaires would be sent out to every council in the two countries. Although the drafts were sent out as planned there was very little critical feedback, indeed, the few changes made came as a result of comments from friends in accountancy and local government who also saw the draft version.

In order to minimise the amount of work for the respondents the questionnaires were customised for each council. Each had a first sheet that showed what I had discovered already about the structure of that council from published data. I asked the respondent to check this and add additional information where necessary. I believe this to have contributed to the high response rate by relating the questionnaire immediately to the council concerned, rather than starting with a question which might not have been relevant in that council. It also showed that I had done some preparatory work, and possibly reinforced any personal link I had made. Copies of the questionnaires are at Appendices IV and VII.

Although it took six months to get them back I eventually received full returns from 28 of the 32 Scottish Councils (88%). Of the four missing councils three were medium and one was large. None of the three Scottish National Party (SNP) led councils returned their questionnaire. The returned forms came from 20 Labour Party controlled councils, 3 with no overall control and 5 with a majority of independent councillors. This last group represents the remoter rural areas, with some 8% of the population and 59% of the land area.

Table 3 Returned Scottish Questionnaires
(total number in each category in brackets for comparison)

| | Number | Small | Medium | Large | Very Large |
|-----------|---------|-------|---------|-------|------------|
| Unitaries | 28 (32) | 4 (4) | 10 (13) | 5 (6) | 9 (9) |

In New Zealand the questionnaires took the same amount of time to come back in, with an eventual 72 out of 85 returned (85%). (The 86th council was Chatham Islands Council and with a population of 750 and subject to a separate body of legislation I decided to omit it from the survey.)

Table 4 Returned New Zealand questionnaires
(total number in each category in brackets for comparison)

| | Total | Very Small | Small | Medium | Large | Very Large |
|-----------|---------|------------|---------|---------|---------|------------|
| Regions | 10 (12) | | | 1 (1) | | 9 (11) |
| Cities | 13 (14) | | | | 5 (5) | 8 (9) |
| Districts | 46 (55) | 12 (15) | 10 (11) | 12 (15) | 12 (14) | |
| Unitaries | 3 (4) | | | | 3 (4) | |
| Totals | 72 (85) | 12 (15) | 10 (11) | 13 (16) | 20 (23) | 17 (20) |

Selection of cases and timing of visits

Non-responding councils could not be chosen as case studies as it appeared unlikely that I would gain the necessary access to staff members. I was fortunate in having personal contacts in a number of councils in both countries, which allowed accessibility to be considered after the candidate councils had been short-listed.

In the end the case study councils were chosen by a process of elimination. I was looking for councils that were not too different to most other councils in that country. So the largest and the smallest in population and area were eliminated. Those councils that had a lot of accountants for their population compared to other councils, (or a few) were also discounted as were those councils that had unique committee or management structures. In Scotland I chose not to use any of the politically hung councils as there were so few of them, and the same would have applied to the SNP controlled councils had any of them replied to the questionnaire. The relative absence of Party politics in New Zealand councils meant that this was not a consideration but I decided that only the territorial councils could be considered as they provided more services in common with Scottish councils. The unitary councils were closer to the Scottish model, but using them for both case studies when there were so few of them in total seemed to compromise the idea of looking for councils that were not too different. However, as I had good contacts in one of the unitaries that seemed like a good place to start. This council was one of the smaller large New Zealand councils, with a large rural area and a series of small towns. My second choice in New Zealand was a territorial council with a large population in a relatively small area and a small rural hinterland. This fitted into the top end of the large councils.

I wanted councils that could be roughly considered as covering similar territories in the two countries, so I looked in Scotland for a match for the large rural area and another for

the urban council. One of these was Labour Party controlled and the other Independent controlled. They both fit into the medium Scottish group. The combined populations of the two New Zealand case study councils are around 60% of the combined populations of the two Scottish case study councils. As part of the search for some comparability the Scottish case study councils were smaller than the whole country average and the New Zealand case study councils larger than their average.

In order to minimise the effect of my presence on the councils, and hopefully improve the chances of their agreement to becoming case studies I wanted to time my visits to coincide with quieter times in the council's financial calendars. I asked the contacts in the proposed New Zealand case studies when would be the best time for me to visit, and we agreed between October and February, half way through the financial year. The Scottish Councils suggested that the winter months, at the same time as budget preparation work, would be possible and my research could benefit from financial matters being high on people's priority lists at that time.

Once I had identified the councils I thought fitted my search I wrote formally to get agreement to my using them as case studies. In two cases I had already spoken to the person, and in the other two to a close associate of the person who gave formal consent. I explained who I was, what I was doing, and how I proposed to gather information through interviews and document review. In all cases the consent was given by a Head of Service, although I was given to understand that it had also been cleared with the Chief Executives.

The Case Studies

In each of the case studies I wanted to find out what people within that council thought about the accounting being done, how it was being used and what its effects were. The role of the accounting profession would be examined as part of this process. In my experience most users of accounting services had opinions, often very strong ones, about the service they received. However I wanted more than just compliments and criticisms from users about the accounting service, and from the accountants about their service users. In order to find areas where the role of accounting would have been more prominent than usual I sought stress points which had an accounting aspect in the recent and ongoing life of the council. These issues would be fresh in people's minds, having been the subject of discussion both formally in meetings and informally as communication networks passed information, shared opinions or argued points. The type of issue I was looking for would probably have involved an out of the ordinary report to councillors, for instance on overspending or creation of a business unit. Both these examples would be important for those involved, and it seems reasonable to describe them as critical incidents. Holloway (1997) suggests that critical incident technique would normally be used in order to solve problems in task performance, which is not an aim of this research. However, as what I was after was the identification of incidents which individuals believe to have a critical effect on their work it seems reasonable to use the expression critical incidents. These would then form starting points for interviews.

Finding critical incidents

I intended to start each case study with a day in the local library, looking through the recent minutes and agendas for the council and its committees, and searching the last year of the local paper for issues that had hit the press. In none of the councils did all the information come so readily to hand. The New Zealand libraries did have all the major

council documents available, but only one had recent agendas and minutes, at the other case I had to get these at the council itself. Neither New Zealand Council had more than a week's worth of the local daily paper, but this was not a problem as in both cases the newspaper office was close by and had archive copies. In Scotland the local papers were weeklies and of less use, and I relied more on council documents, which were readily available in one council library and at the other council headquarters. In all cases I found that other critical incidents came to light through discussing the council with my contacts in the area.

The problems with using reported incident in this way, both from individuals and the press, is that those incidents have already been through a screening process, which may select on a completely different basis from the researcher's. However, there are a number of things to be said in its favour, apart from the relative ease of access: firstly local councils need to take the views of their press and electorate seriously as they are democratic bodies, so to some extent issues which are seen by the public as important actually become important, even if they did not start off that way. Secondly, the public's view of their council is shaped by available information sources, which tend to be people they know within the councils and reports in the press. Much of what is in the press comes as a result of attendance at council meetings. Much of what their contacts say may be prejudiced but it will relate to an area that is causing concern for someone in the council. Thirdly, I was not looking for a fair, balanced list of issues arising from all parts of the council; I was looking for some areas of concern which could form a topic of conversation.

The document review took in all accessible council documents produced for the public in the preceding two years that I could find. These varied from country to country and

council to council. In Scotland I expected to find mostly minutes and agendas, with some consultation documents and the annual report. In New Zealand I expected to find the same with a lot more consultation documents, not least the draft budgets, Long Term Financial Plan and Resource Management Plan which are legally required to be the subject of consultation. In both countries I found also performance reports and public information leaflets for particular council services, produced by that part of the council. These highlighted any changes in service provision, usually showing the benefits of that change.

By reading through the minutes and agendas I found reports of overspendings and budget transfers for particular committees, reports of arrangements with third parties to provide services on a partnership basis, and reports of the setting up and progress of business units within the councils. I discovered interpretation problems with each council's house style, one council in particular seemed to take a lot of its business in private, while another one kept most of its meetings open and apparently reported them clearly. This latter council seemed very keen on good communications with its electorate and had an open public forum at the start of each council meeting, which was also minuted. However, as with the reported sources I was not trying to establish a complete record of incidents that might have an accounting sub-text, just trying to find out as much as possible that could help me have a knowledgeable conversation with people within the councils. As well as providing some points which I could ask about directly, the building of a cognitive context for each council would help me understand the answers.

The interviews

Having collected some critical incidents I used these to provide a list of topics for each of the interviews. The intention was not to ask each person set questions, although there was

some repetition, but to use open questions to get people talking about the topics that they found relevant to them. For each interview I prepared a list of topics that I thought I wanted to cover, but they did not form an exclusive structure to the interview. Most interviews were only very lightly structured in that they started with a question about how the interviewee had got into local government, at some stage asked about relationships between accounting and other services, and asked about the critical incidents that seemed to relate to the interviewee. I introduced perhaps five topics in each interview. With the interviews on average 90 minutes long they were largely steered by the interviewee. Despite this they rarely got away from the accounting orientation, perhaps because all the interviewees were aware that they were conversing with an accountant.

I settled on this approach following four trial interviews with accountants from other councils, selected on the basis that they were in the sort of posts that I would be interviewing in the case studies, and because they were individuals who had worked in both the Finance Department and a service department. The trial interviews enabled me to try out the mechanics of taping and transcribing interviews and reflect on my interview technique. They also re-assured me that the sort of information I was after could be found from these very loosely structured interviews.

Interview interpretations

All interviews risk problems of understanding and interpretation. One person is expressing their thoughts to another, and assuming both persons are acting in conscious and unconscious good faith there are still potential problems with the first person saying what they meant, the second person hearing the words, and then interpreting it with the same meaning as it was said. These problems with understanding are complicated by assumptions that are made by both parties, some of which I attempted to examine.

Before I commenced interviewing I considered how various interviewees might react to me as an interviewer, and how I might react to them. I was an accountant, who had been in a fairly senior post in Scottish local government. I had done some consultancy work for councils training non-financial staff in financial matters in both countries. I was currently a research student. By the time I did the Scottish cases I was also tutoring on an MBA. I was anxious that people would accept that I was not acting as an authority figure but that I did have a justifiable interest and the entitlement to ask questions.

In Scotland as a local authority accountant interviewing finance staff there might have been an expectation that I would understand answers with minimum explanation. This could have been a problem if I did not. There might have been a tendency to talk to me as if to a new member of the finance department, showing only the interior views of partisanship. As a result there could be another side to finance viewpoints which would be less accessible. Service managers on the other hand might have assumed that I came from the same direction as the finance staff known to them already, and react accordingly, avoiding what they assumed to be contentious areas and having a defensive reaction to questioning on financially sensitive areas.

In New Zealand I expected the same problems to arise but also that preconceptions that people held about me and therefore their replies to questions to be different. I would have a get out clause for any misunderstandings on the basis that “it is different over here”, but equally so would the interviewee, so it became more important to clarify what I thought I had understood during interviews. If the interviewee was reporting problems of some kind there could be a tendency to overstate the difficulties, or if reporting successes overstate the triumphs. This might happen anywhere, but the implied inter-country

comparisons of New Zealand council people talking to a person with a Scottish council background might lead to an escalating spiral of problems if I used a Scottish example to elicit information.

Overall I felt that for finance staff the biggest problems might arise as a result of the expectation that I knew all about Scottish council finance and nothing about that in New Zealand councils. For service department managers I was concerned that the obstacle I had to get around was the perception of me as yet another accountant, evoking all the luggage of previous encounters with accountants.

I had originally thought that I might want to talk to administrative workers in service departments as these people would have the most frequent day-to-day contacts with finance staff. However, I was concerned that there would be an expectation that as a senior finance person I would somehow be directive, and therefore questions would elicit reporting of compliance rather than comment on, and criticism of, the system. Once I started gathering background information I found that the incidents I was looking at did not involve these staff except in a peripheral manner, and I did not interview any.

One other aspect of me as an interviewer was that I was a woman, and most of the people I would be interviewing would be men. (In fact only 11 of the 53 interviewees were women.) I had not given this a lot of thought, as being a local government accountant I had been used to operating in this environment and it is possible that female accountants are considered androgenised in a work environment in the same way that some senior females are (Warren, 1988). I primarily thought of myself as an accountant while at work, rather than explicitly as a woman. During the interviews the same self-concept applied, and it was only during the transcriptions that I heard interviewees' awareness of

me as a woman. In two cases, during a very intense part of the interview, where the interviewee was talking about matters they had taken personally, there seemed to be an hiatus in the flow with the interviewee mentioning their wife in the conversation before carrying on with the original topic. I was fleetingly aware that something odd had occurred when it happened. On hearing the tapes I came to the conclusion that the interviewee had realised (possibly sub-consciously) that they were talking very intensely about an emotional topic to a female who was not their wife. By bringing their wives into the conversation they took a step back from that level of involvement and established a difference between passion about work, which they could discuss with an interested person who happened to be a woman, and any other sort of passion between a man and a woman. The passion that the interviewees felt compelled to thus define as appropriate was mutually felt; there is excitement in talking to people who love, or are at least very engaged with, their work.

When I was interviewing I was me; a white, married (and ring wearing), overweight, female accountant in her late forties, and that identity framed both my approach and the responses of the interviewees. There may have been some indication that the women saw me as a female council accountant and assumed I would be sympathetic, and the men saw me as a council accountant who had to persuade them that I was sympathetic. Some of the women I interviewed told me extremely confidential, personal things, but then so did some of the men. Was this evidence of the “focal gender myth” that females have greater communicative skills and a less threatening nature and are therefore good interviewers (Warren, 1988, p64)? It seems simpler to assume that the interviewees wanted to talk about their work. Certainly some of the conversation about difficulties encountered in doing the things that mattered to the interviewees was so intense that it drew emotional echoes from my own experiences. This was Warren’s countertransference: “emotions

evoked in the fieldworker while listening to respondents' accounts of their own lives" (Warren, 1988, p47).

Interview and transcription mechanics

Following good ethical practice before each interview I asked the interviewee to read through a brief statement of what I was doing which laid out the principles of confidentiality and anonymity that I intended to follow regarding the interview. They then signed a document agreeing to my use of the interview information under those conditions. (A blank is included at Appendix VI.) Although the agreement form was titled "Research into the effectiveness of changed management and accounting structures in local government in New Zealand and Scotland" the aim of the research was described as "To discover how management structures and accountancy structures in local authorities in Scotland and New Zealand have changed and study organisational perceptions of the causes and consequences" and it was this more general intention that was used to describe the work verbally.

I then asked each interviewee if they minded me taping the interview and with one exception everyone agreed. The tape recorder I used throughout the interviews was a small pocket Dictaphone, which was placed between us. I had thought that an advantage of using the Dictaphone would be that it was unobtrusive, but because the tapes have limited time on each side, the need to turn over or put in a new tape every 20 minutes kept drawing attention to the taping process. Nevertheless interviewees who were in full flow when the tape needed attention would maintain their thread, on occasion even starting the new side with a recap on what they had just said. The same continuity was maintained over interruptions from other people, excess external noise, and in one case the lights turning themselves off and on in an automated environment office. The recorder

developed an annoying habit of turning on its voice activation feature when its batteries were low, which meant that in a couple of the interviews the first part of each speech was lost. Apart from comments while I sorted that problem or changed or turned tapes the only other time the taping was mentioned was when an interviewee was about to say something they felt was indiscreet, which was often prefaced by an aside such as “I don’t suppose I should say this with that thing on but ...”. At no point did anyone ask me to turn off the recorder, or ask that particular comments be “off the record”. The one interviewee who preferred not to be taped gave me an interview of just over an hour, and I made notes at the time and immediately afterwards.

During the interview, as well as talking, several of the interviewees illustrated points with documents from their files or by drawing a diagram. Most of this information was not in the public arena, and in some cases the file was put away again after I had been shown the relevant part. In other cases the interviewee made a copy for me or gave me a spare. This may have been in the same way as they would have done for a colleague at work or possibly as evidence for their words about an area which had worried them. In a couple of cases I got this latter sense of the documents being used to co-opt me to the interviewees’ sides very strongly. However most of the documents I was given were more explanatory than evidential, showing complex diagrams or budget figures.

At the end of the interview I thanked the interviewee and switched the tape off. The conversation then continued as I gathered together my bag, and in several cases topics from the interview were elaborated by the interviewee. Some interviewees had offered copies of documents during the interview, which they sorted out at the end, and this also provided an opportunity for them to continue to talk. Although much of what was said at the end was pleasantries irrelevant to the interview or repetition of points made in the

interview, in a significant number of cases the interviewee said things that made me wish I had still been taping. These comments were not given “off the record” but were a continuance of the conversation that the interviewee had had with me. Immediately after each interview I went somewhere quiet and wrote down any of these points, along with any comments I wanted to record about general impressions, notes for future interviews and points that I wanted to check.

As soon as possible after the interview I started on transcription, in order not to forget the sense of what people had said. The trial interviews had demonstrated that people talking intensely often speak fast, and I was surprised how many parts of the recordings could be subject to multiple interpretations, including some of my own speech. By attempting to transcribe while I could still feel the presence of the interview I tried to avoid having to interpret from the tape later on. For this reason I tried not to take more than two interviews a day, but where interviewees’ other commitments limited opportunities for interviews it was unavoidable, and on some days I ended up with three. As it took me 2 hours to transcribe a 20 minutes side of tape, and interviews lasted up to two and a half hours long it proved impossible to keep up with the transcription day to day, and the last interviews in each case study were transcribed months after the event. After the initial transcription each interview was re-heard while checking the transcription. This improved the accuracy of the transcriptions, and there seemed to be little connection between error levels and time lapse between interview and original transcription. The interview transcriptions amount to 481,175 words. I had originally considered some form of informant validation, but in the end the large number of interviews and resultant time constraints made validation not viable.

The interviewees

In the case studies I had 52 interviews with 26 NZ interviewees and 27 Scottish interviewees. (Two interviewees were seen twice and there were two group meetings. I also interviewed four accountants in other Scottish Councils and four accountants in other New Zealand Councils.) Of the 53 Case Study interviews 19 were with accountants employed by central financial departments, two were with accountants employed by service departments, 25 were with heads of service, 5 were with people from the (non-financial) central services of the council and 2 with councillors. Details of the mix for each case are given in Appendix IX.

In order to find perceptions about how accountancy is used from both practitioners and service recipients I needed to interview both accountants and non-accountants. In each council I particularly wanted to see the accountant who knew most about the internal financial information system, any accountants who were working in service departments, and any who had changed from finance to a service or vice versa on the basis that these individuals would have a broader picture of what was going on in the council than other accountants.

The first few interviews at each case study were with accountants. I had considered whether to speak to finance department or service department personnel first. The disadvantages of speaking to finance people first would be that I would start out with a finance view of how financial things should work, and possibly miss areas where it did not operate that way. If for instance a question like "so how is that authorised?" makes the wrong assumption that authorisation takes place, a service department employee may say "By the boss I think" on the basis that if an accountant, (the researcher) asks about authorisation then it probably is part of the system and should be done. Alternatively the

same reply may be given because even if it is not part of the system perhaps it should be if an accountant has asked about it, or perhaps it is being done and the interviewee does not know about it, but does not want to gainsay the interviewer.

However, on balance I decided that it was more important to know how the finance systems should be working before asking any questions of the service department users of those systems. I didn't want to lose any status I might have as a local government insider by asking uninformed questions. I had too often been on the receiving end of external auditors asking questions which were way off beam and demonstrated that they had not done their homework, and I did not want to be regarded in the same light. This is a very different approach to that advocated by the ethnography constructors, who see a naïve interviewer as necessary to avoid pre-conceptions. However, in the same way that I had expected an auditor to know what they were talking about, I felt that my interviewees would expect me as a person with a council background to know something of the local government world and as an accountant know about the financial systems within the council.

Looking at service departments I knew wanted to speak to the librarian at my first case study, as speaking with him in 1992 it had been very clear that he had considered views about most parts of the council, as well as a reflective view of his own department. Knowing that this was one of the few services that were similar in all four of the cases, and in the hope that all would be as insightful, I decided to interview all the library service heads. Unfortunately in one council the post was vacant, and the post being covered by a non-librarian, so although I had interviews with all the library service heads, I did not get the full comparability I had been hoping for. Rather than make a firm decision beforehand on which other departmental managers I wanted to interview I left

the choice vague until I had found some critical incidents for that case study, and then sought to speak with the managers and accountants involved.

Having looked at the establishment structure, and spoken to my contact and some of the accountants, I knew who in the service departments might have views on a particular critical incident, and after speaking to him or her might be referred to another person with views on the matter. Names arose from the interviews as people described the way that things happened, who started a new idea, who was at a crucial meeting etc. For any one issue I did not attempt to interview individuals in a particular order. Once I knew it might be interesting to speak to an individual I contacted them and arranged an interview for the next time that was mutually convenient. I was not trying to build up a single picture of events but build up a mosaic of views as if through a multi-faceted lens. This meant that I might be in possession of several conflicting views of the same thing.

Access

In each case my first interview was with my contact for about half an hour, to talk about what I was doing and to clarify access arrangements. As a result of my document searches I already had a copy of the establishment structure, and had identified a number of post-holders whom I was interested in. The contacts provided information on these post-holders; if they were absent, likely to be difficult to get hold of because they were busy, and if the contact considered that the individual concerned would be interested in the research and make a useful contribution. If the choice was between two similar post-holders, for instance two management accountants, I took the contact's advice as to which to see. If the advice was not to bother with an individual whose position meant I had wanted to see them I saw them anyway. In several instances I found the contact's advice to be valid, but felt that I had at least collected negative information. The contacts all also

suggested other people who I might find interesting. I followed up most of these suggestions, and found them to be very useful.

In two of the cases the contact made arrangements for the first interview with someone they had already advised of my visit. In the first three case studies I was given a copy of the internal telephone directory so I could make subsequent arrangements myself. On telephoning a potential interviewee I mentioned my contact as a way of authenticating myself, which seemed to work as no-one that I spoke to refused to give me an interview. In the fourth case all the interviews were arranged for me by my contact. I feel this restricted my options in comparison to the other councils, and it is impossible to tell if people I did not see were choosing not to see me or being censored by my contact. This council appeared to have a very controlling finance function, so the problem may have been centred there. The interviews with the individuals I did speak to were much longer than the average, which could be interpreted as the interviewees having more to get off their chests. The arrangements for interviews at this council were also interrupted by extreme weather and an internal council crisis, as a result of which I effectively lost my access. At that stage there were two more people who I had hoped to interview but could not.

My ability to come and go freely varied with each study, and over time. All the case studies were done over at least two visits to each area. When I started NZ1 I could ring up my interviewee, arrange a meeting, go to the council offices and walk straight into the individual's office. By the second round of interviews a reception system was in place that requested all visitors to report to the front desk. After I had done this twice I was told not to bother and continue to just find the appropriate office. NZ2 was as casual as NZ1 had been originally.

Both the Scottish cases had swipe card security. In the case of S1 I was given a visitors badge, swiped in by my contact and then given advice on how to reach other departments using the back stairs so I did not have to bother with the security system. I was also found a series of empty rooms to use for interviews and transcription, so remained inside the council all day. This gave me more opportunities to talk to other staff members at lunchtime and while getting coffee etc. It also meant I had a base within the council offices to leave my bag and coat, so reinforcing the sense (to the interviewees and to me) that I was part of the office.

Although I went to tea break with various interviewees in NZ1 and Friday drinks in NZ2, I was always introduced as an interviewer from Scotland. This led to interesting discussions but placed me firmly as an outsider. In all four case studies I managed to avoid arriving for interviews dressed in outside wear, which I hoped would reduce my impact as an outsider.

Three of the NZ2 interviews and two of the NZ1 interviews took place in the interviewee's homes, two with councillors, and three with officers. Four of these interviews gave me some particularly reflective material; that may have been simply due to the four individuals involved, or by talking away from the office the physical distance may have encouraged a cognitive distance. The fact that all were willing to use personal time to talk about work perhaps indicates that these individuals would have provided just as interesting interviews in the office as out of it.

Did these different degrees of access mean I received different qualities of information from the different case studies? I do not know. As has been mentioned where I found

most difficulty with access the interviews were particularly long, and there is no indication that they were any less revealing than in the other cases. What the different degrees of access did do was colour my perceptions of each case, from the home territory feel of S1 and the relaxed openness of the New Zealand cases, particularly NZ2, to the soul searching behind the closed doors of S2. Considering access to each of the cases has helped me interpret the interviews and enriched my analysis.

Locating the Case Studies

After the field research I had experienced life in each of the council areas, used some of the services (roads, water, refuse collection, library, public conveniences etc.) and gathered published information about the councils from reports, leaflets, council newsletters etc. Together with the visits to the councils and interviews all these sources combined to give me an impression about each of the case studies. This impression provided a vital context for interpretation of the interviews, and this section describes and classifies each council on that basis. The councils are further categorised in Chapter 5 through their treatment of overheads.

The councils can be divided by country, two being Scots and two New Zealand. This division also defines their main income source, being central government in Scotland and ratepayers in New Zealand. The councils were chosen so that there was one rural and one urban in each country. This was more in order to match the two countries than in any belief that this marked anything other than a geographical distinction. However, the differences between town and country were much greater than I had expected, and there were more similarities in feel between the two urban councils than between each and its rural compatriot. It is difficult to put labels on these differences and similarities as they are compounded from several different observations. Perhaps the best way of explaining

“feel” is to consider what an employee new to the area and the council might notice. Each council is briefly described below, and Table 5 illustrates the main points of comparison.

NZ1

This council was predominantly urban, with a couple of small rural areas grafted on at re-organisation. Most of the wards were multi-member, and individual members were elected on a personal basis as the councillors did not stand on party tickets, although some were known to be members of Labour or Alliance. Particular councillors promoted themselves as representing certain constituencies, i.e. local business or poorer sections of society; others had campaigned largely on single issues. The new council elected in October 1998 was clearly divided several ways, between old enemies from the old council, between new and old councillors, and most visibly, between those who saw themselves as representing business and those who saw themselves as representing the disadvantaged. It is tempting to consider this split as similar to that between Conservative and Labour councillors in the UK, but there seemed to be a wider spectrum of opinion in NZ1, the extremes might be better compared to the Monday Club and the Scottish Socialists with most of the councillors somewhere in between. With no party line it is less easy to predict support for particular issues, and personal preference and ward issues may result in councillors voting in an unpredictable manner. This happened with the election of Committee chairs, where only one of the recommendations of the Mayor was accepted, reportedly in a fit of pique.

The publications and pronouncements of the council and the commentary of the interviewees all indicated an underlying discourse concerning the quality of life and opportunity, and pride in the area. I termed this concern for the well being of the area

“civic welfarism”. Underlying many of the issues at the council was a concern about the local economy, which was seen as reliant on two main sectors, both of which seemed vulnerable. New Zealand traditionally had a population growth fuelled by large families and immigration from Europe. Although both have slowed, immigration from the Pacific islands and latterly other parts of the Pacific rim have maintained the momentum, but concentrated it more in the Auckland area, which held around 25% of the population between 1991 and 1995 (Statistics New Zealand, 1996). Other parts of the country have seen stalling growth, in some cases for the first time. This has several consequences for local authorities. Improvements in council services and developments in the private economy may have been planned on the basis of continued population growth, and without that growth the economy falters. For the councils, where much of the development income comes from housing on new sub-divisions, and revenue income comes from rates, a reduction in population leads to a fall in income, but not necessarily a fall in the expectations of the electorate. In NZ1 this particular concern had been highlighted by the Long Term Financial Strategy process, which had costed the continuing desires of the councillors for improvements to services over the next ten years and found that the consequent implication for rate levels was not politically acceptable. I discovered and was told of other councils where the same thing had happened. The Long Term Financial Strategy and its consequences are examined in depth in Chapter 8.

The management accounting service in NZ1 had been split away from the finance of the council in 1991 and was provided by a part of a business unit. The implication here is that accounting is a commercial service, and could be externalised, whereas finance and the production of the annual plan and report are core services. This is reinforced by the strong influence of the Chief Executive over finance affairs, recruiting finance managers that would provide the support he required. On this basis I have described the financial

power in this council as "hijacked". The split had also created additional tensions within the council: the finance plan and report are built on information provided by the accounting team, and as a result the individuals preparing those documents cannot control that input, as the ledger owner is employed by the business unit. At the same time the relegation of accounting to routine status has meant that the posts are poorly paid, and have a high turnover of inexperienced incumbents. This reduces the quality of the service and by implication the quality of the figures used to support strategic decisions made by more highly statused parts of the council.

Despite this, concerns about the accounts centred on accounting for the business units rather than accounts production *per se*. The management team of the council had largely been in place for six years, and there had been an easy familiarity between them. At the time of the research this was beginning to break up, a couple of members had left in acrimonious circumstances and within the next four years all bar one of my 16 interviewees had left the council. I could not discover whether this was caused by the tensions produced by the Long Term Financial Strategy or was a normal cyclical turnover, it seems likely to have been a combination of both.

NZ2

This council was rural, with more than half of the population living in settlements below 8,000 people. Despite this there was a lot of local feeling centred on the towns which had been the centre of councils pre-amalgamation in 1989. This showed itself in disputes about the location of new facilities and even-handedness of additions to infrastructure and in occasional strained relationships between council officers, described as "the vestiges of planetary dust following the big bang of unification" by one interviewee (AP.74). This council had community boards outwith the main town for two of the areas which had

previously been separate councils. (Boards are a mostly advisory tier of government and can be set up by councils, usually in response to local demand.) All the wards are multi-member. At the October 1998 elections the old council was replaced by one in which a number of councillors, including the incoming mayor, stood on a campaign platform which was summarised as "It was fairly rurally based ... sort of a minimalist sort of approach, back to basics. Stuff the luxury idea." (AJ.130). These "rural minimalists" had led a rates march in protest against the level of rates proposed for the 1998-99 year. The previous council had been acting on the basis of making the most of "the natural beauty, benefits and associated lifestyle" of the area (Engineering Council, 1998a). This had created tensions between rural landowners and those who wished to support the natural environment. People living in the rural areas, especially the landowners who were paying large amounts of rates, wanted the council to concentrate on the infrastructure of the council, roads, storm water and river protection. These basic, engineering oriented, issues were the hallmark of NZ2. The accounting and relation between accounting and engineering in this council is covered in detail in the chapter on Overheads. Power over financial affairs had become "diffused" with the various parts of the council having control over their own budgets. Only instrumental control was held by the finance staff in NZ2, strategy being decided by the Chief Executive as in NZ1, but with a strong input from the engineering managers.

S1

Council S1 covers quite a large area, but most of its population is concentrated in and around one urban grouping and a separate town. Like NZ1 it acquired its rural hinterland at re-organisation, and is basically the same council that it was before with the addition of the regional functions. Alone of the four cases S1 had a council controlled by a political party. The main way in which this was manifested in the research was the positive

attitude to central government (of the same party) initiatives. The civic welfarism promoted here was couched in the language of the Scottish Executive of inclusion and sustainable development. Like NZ1, again, the main issues were seen as maintaining the economic health of the area.

Financial control in the council resided with the Director of Finance and his staff. Part of the influence that they had was related to the location of accountants in service departments, and part due to the involvement of finance staff in many of the corporate activities. Although the managers in S1 seemed to have similar financial responsibilities to those in NZ2, strategic financial control resided uncontested with Finance in S1. This was exercised, in part at least, through the accountants placed in the departments, leading me to term the financial power as "infiltrated".

S2

The second Scottish case study council had been created from the amalgamation of several smaller councils plus the regional tier at re-organisation. Like NZ2 there were still echoes of the previous councils at both member and officer levels. This constrained the choices that could be made, with fierce localism having to be appeased by council decision and soothed by officer consultation. Although many of the councillors stood on party political tickets many others were independents, and they had overall control. Individual councillors were described to me as personalities who were either good or poor at the job, their party allegiances were given as a minor part of the description. The main task of the Council Convenor appeared to be to maintain the balance between the councillors well enough to conduct the business of the council. This council had a low basic service level, partly one suspects because of this drain on political energy, and partly due to the historically low tax take. Like NZ1 and S1 the area was concerned with

the economy, but in a defeatist way. There seemed to be an acceptance that changes in world demand for local product would continue to create problems. This was in marked contrast to the attitude to loss of markets for products from NZ2, which was accepted as a temporary change of fortune, to be remedied by other products and new markets. The low service level was seen as both a good thing being not expensive, and as a bad thing providing poorly for a struggling area. It was also seen as very difficult to change, and very little of the discourse in S2 was about positive change, in comparison to all three of the other councils.

Like S1, but with a more bureaucratic heavy hand, the Director of Finance controlled the strategic and instrumental aspects of finance and accounting. In this he was supported by the Convenor and Chief Executive who desired to keep finance and strategy tightly under control. The importance of finance and accounting in this struggling council seems to support Meyer's comment that "Myths are important, they hold the organisation together with their justifications, which is especially important in a chaotic world" (Meyer, 1983, p235). There seemed to be insufficient finance staff to do all that was required, but some at least of this may have been because of the need to keep such tight control. This meant that the delegation and devolvement to other services which was the case in the other three councils was not conceivable in this council where financial power was "concentrated" in the hands of the Director of Finance, supported by the Chief Executive.

Table 5 Summary Table of perceptions of the four case study councils

| | NZ1 | NZ2 | S1 | S2 |
|-----------------------------|--|--|--|---|
| Urban / Rural | Urban with rural | Rural with towns | Urban with rural | Rural with towns |
| Politics | Not party political, but polarised | Not party political, but rural | Party political | Personalised rather than party political |
| Dominant approach | Civic welfarism | Rural welfarism becoming minimalism | Labour led civic welfarism | Coping minimalism |
| Political issues | Local economy | Infrastructure | Local economy | Low taxes |
| Financial structures | Accounting split from finance and marginalised, finance under control of Chief Executive | No effective power loci, individual managers have assumed mantle | Power and therefore control extended into departments with accountants line managed from Finance | All control and power held tightly in centre |
| Financial Actors | Chief Executive | Probably Chief Executive | Chief Accountant & Director of Finance | Director of Finance supported by Chief Executive |
| Financial Power | Hijacked | Diffused | Infiltrated | Concentrated |
| Accountants | Accountants split between management who operate as part of wider business unit, and financial, part of strategic unit | Only two accountants, nominally split management and financial, in fact cover for each other | Accountants split between service and centre, all report to Director of Finance, service accountants in services | Accountants split between management and financial, all report to Director of Finance |

The Analysis

Coding

Having completed and transcribed the interviews, and built a mental picture of each of the cases, the next step was to sort the information from the interviews through a process of coding. (The impression of each council informed the coding and the coding built up the impression of the council, the process was more heuristic and iterative than these clear sequential steps imply.) In addition to picking up transcription errors, the process of checking refreshed the interview in my memory. After checking all the interviews in one case study I drew up a tentative analysis coding structure. For this first council I set up a series of files and divided the interviews into groupings that seemed to reflect the main areas that had arisen from the case study. I allowed the material to determine the groups, favouring the dramatic, the well described and good metaphors over the humdrum, and made no attempt to balance out the structure or impose pre-imagined categories. For group titles I found myself using expressions that had been used by interviewees, rather than try to describe the content more precisely or objectively. Once this had been completed for the first council I had a file that was larger than the original transcription file (some discussions related to more than one topic) and extremely unwieldy.

One of my supervisors had been recommended QSR's Nud*ist computer programme for this type of work, and on examination it seemed to provide the capabilities I needed. According to Barry (1998), this software package can enrich the data analysis by facilitating more complex questioning of the data, as well as speeding up some of the analysis tasks. It can handle a very complex structure, which is best thought through before starting, but my structure was not multi-layered, and so could be built up as it was

found in the interviews. I used Nud*ist for the second case study and found it very easy and quick in comparison to the first manual coding. To check that this was not because I had missed things out I then went back to the first study and re-coded that from scratch using Nud*ist. The small differences between this version and the manual one could be accounted for by the additional ideas I had gained from coding the second case study. I was reassured that my approach was reasonable and the use of Nud*ist was not compromising the material. After the second two case studies had been completed I used the same process of transcription, checking and coding using Nud*ist on them. Because I allowed the codes to arise from the material each case study has a completely different coding structure, even though there were some common codes, for instance “business units”.

As I found new ideas emerging from the later case studies I returned to earlier ones to look for any evidence that these ideas applied in these cases as well. The string search facility in Nud*ist made this a comparatively easy exercise; I could look for particular discursive constructions such as “fair” and “businesslike” which feature in the chapters on Overheads and Business Units respectively. It was also possible to find second order echoes of issues that were of prime concern in other cases. Equally it was possible to show that particular issues had not arisen in any of the interviews in a case.

Pulling out ideas

There was a gap between completing the New Zealand cases to coded status and starting on the Scottish cases. I used the time to examine the information I had and pull out areas that I felt were significant. I wrote up several of the stories that had emerged from the interviews as having a high impact on the life of the council. This gave me practice at identifying interesting areas and also using the interview transcripts to create an

illustrative narrative. Some of these were later used in the chapters. However, not until I had coded all the case studies did I select the topics which most richly addressed the key questions.

One of the questions that I had asked everyone concerned the relationship between the council's accountants and the service departments. I had asked service managers about the service they got from the accountants, and the accountants about the service they provided for the service departments. It was clear that on a mundane, day to day level there were aspects of this relationship that annoyed the participants. The commentary that arose from this about the allocation of costs from the central parts of the council to the service departments formed the basis of Chapter 5. This was a topic where the accounting profession had been closely involved with specifying the treatment of these costs for financial reporting, and yet each council dealt with its overheads differently. It seemed likely to be a fruitful topic for examining the reasons for particular treatments of these costs, the balance between professionally supported isomorphism and locality effects, and the sometimes counterproductive outcomes.

Linked with the ideas about overheads came a great deal of detail and commentary about business units. These units are defined by accounting, which treats them as if they were a separate part of the council. They were topical in both countries, with the Scottish ones becoming less managerially distinct while keeping but changing the separate accounting, and the New Zealand councils establishing new business units. A lot of the discussion in New Zealand about these units centred on why they existed, and what their definition should be. The extremely close association between accounting and management, the variety of reasons for the use of this type of isomorphic accounting, and the wide range of outcomes meant that business units provided a lot of information in answer to the key

questions. Because of the volume and richness of information on this topic the description and categorisation of business units has been split from their analysis to form Chapter 6 Business Units - Categorisation and Chapter 7 Business Units - Concepts.

The other topics chosen examine the ways that councils are using accounting devices to mitigate and make the best of pressures from their funders: firstly in New Zealand where councils are balancing taxes and charges (Chapter 8), then in Scotland where councils are adapting to the Executive use of top slicing and encouragement for partnership working (Chapter 9). In both countries the accounting that had been and was being introduced was explained as a way of achieving politically, socially or managerially desirable aims. The availability of the accounting formats has much to do with the accounting profession, so these topics also address all three of the key questions.

Each of the four topics starts with an introduction explaining its relevance to the research followed by an exploration of how the topic operates and perceptions of why particular forms were chosen for particular situations and the effects of using it. Each topic concludes with an examination of how it informs each of the key questions.

Chapter 5 Overheads

The accounting that happens within organisations reveals much about those organisations and their approach to life, even at the most basic levels of recording financial transactions with the outside world. As part of that, recording expenses are categorised into cost groups in order to create more coherent information for both inside and outside the organisation. For most organisations some costs are treated as overheads and accounted for differently from other expenses. All councils have to deal with overheads, and the case study councils each had their own methods. The expenses that were categorised as overheads, and their treatment, differed not simply in terms of accounting but in the way that they were part of the structure of management and the attitudes towards them. By examining perceptions of overheads some of both the differences between and the common aspects of the councils were discovered. The differences have been used to describe the individual case studies' organisational paradigms. The things in common are part of the broader research findings.

The two Scottish Councils both designated and allocated overheads according to CIPFA guidelines, producing accounts that had absorbed all costs into either the corporate and democratic core or one of the front line services. Although both councils accounted for their overheads according to the same guidelines and with the intention of using a similar process, there were differing attitudes to the issue, and quite different amounts of time required for overhead accounting. The two New Zealand councils had defined and treated overheads quite differently from each other and from the Scottish method, although both annual accounts reported all costs as belonging to one of the significant activities.

Overheads are allocated as part of the costs of significant accounts and services because the accountancy profession requires segmental reporting. The role of the profession is very clear here in determining that the costs of overheads shall be allocated. In each council the overheads process being used appeared to reflect the operating style of the council rather than an identifiable conscious choice.

This chapter starts by describing overheads in general and then within local authorities. Common findings from all the case study councils concerning overheads are examined in the next three sections, looking at how the size of the overhead charged affects individual services. Overheads affect comparisons between councils and between councils and the outside world. They also become important if the amount of income due to be recovered from charges is a proportion of the total cost of the service. The next section establishes a framework for examining the components of overheads, which supplies the detail needed to understand the treatments used in the individual councils. The treatment of overheads is then used to provide a way of viewing some of the cultural aspects and to categorise each council. Two examples of concern with overheads as a result of externalisation of services follow. The chapter ends with sections on each of three key questions.

What is Meant by Overheads?

The term overheads is used extensively in manufacturing organisations, and in this context it is used to denote those expenses that are not directly attributable to the costs of making a particular product. As long as an organisation only makes one product then all costs are attributable to that, and none are overheads. As soon as there is another product then to get an estimate of the cost of producing each line the costs of the organisation have to be split between them. Without that estimate of cost the organisation does not know if each product is making a profit at its sale price. An organisation that wishes to

continue in existence needs to know what the costs are of producing each of its lines. This is a necessary aid to decision making whether the decisions are concerned with maximising profit or other goals.

Some costs are easy to attribute: for instance raw materials, dedicated production lines, or specialist staff. Others are difficult because of a tenuous relationship to any particular product: reception, grounds maintenance, board meetings. Most costs fall in between in that they are directly caused by the production process, or caused by the marketing or distribution of the products, but they relate to more than one product line so the expense has to be divided appropriately.

Those costs that cannot be directly attributed to one product have to be allocated. The larger the organisation and the variety of products the more complex the allocation of overhead can become in pursuit of the 'correct cost' for each product. From the point of view of the production manager there is one concern about overheads: that the amount with which their product is being charged is too much. But there are actually two parts to the calculation that contribute to the amount allocated: the total cost of overheads and the way they are shared out.

The use of overheads is not confined to manufacturing organisations. Any organisation that has multiple outputs will have a similar device to share costs between those outputs. Like many service organisations local authorities have multiple products. The outputs generated by councils are split in Scotland into 'services' and in New Zealand 'significant activities'. The former will include the standard CIPFA designated service headings used for the Local Finance Returns, but may be sub-divided for local use. New Zealand councils are required to plan, budget and report by significant activities (Local

Government Amendment (No.2) Act 1989, S.223D) but what constitutes each significant activity is decided upon by each council. The managers responsible for the budget of each of these activities or services are also looking for a 'correct' or lower allocation of overheads to the services they produce.

Is the council manager under pressure to minimise costs in the same way as the private sector manager who may be concerned that their product will not be seen to be profitable enough for the company? In a council, services are required for political, social and legal reasons and have little or nothing to do with profit. However, the cost of delivering those services is benchmarked against the costs of other councils which may lead to unflattering comparisons. In addition the costs of providing services in-house will be measured against the estimated costs of getting those services from outwith the council. From the point of view of the council manager the danger to the continued existence of their service is just as real as the profit comparison might be to the product manager. The pressure on councils to perform economically, efficiently and effectively has generated more comparisons: in Scotland with the performance indicators specified by the Accounts Commission, and in New Zealand with the legal requirement to consider whether to go to tender. This change in environment has increased the significance of service costing and therefore overhead calculations. So council managers have an understandable interest in the amount their services are being charged for overheads, and that amount is determined by both the cost and volume of the expenses that are being put into the overhead account and the methods of allocation used.

Common Problems - Comparisons

Even where there seems no threat to the staff or service overheads are an irritant when comparisons are being made with other councils. The library service in Scotland has long

had comparative figures, compiled by CIPFA. These are used by library service champions, both managers and councillors, to illustrate how well or poorly each library service is doing compared to others, both in terms of service indicators and finances. Similarly, libraries in the 15 largest cities of New Zealand belong to an organisation called the Metronet which produces comparative figures, including costs. As a result of these cost comparisons librarians are very aware of the amounts that they are charged for overheads, even though in the councils examined the libraries are under no direct threat from those costs, and the budget and responsibility for over or under spending on overheads lies elsewhere.

A Scottish librarian complained about his overhead being too high and absorbing funds that could potentially be used for his service:

... the services that are provided by this council, the back up services. Finance, personnel, um, wages, IT, legal services. Now, in my BVR review [it] shows that the amount that is charged to cultural services here per head of population is the highest in Scotland. ... if I was really externalising, if I was taking a proper BVR look, I would say to them I will get the Bank of Scotland to do my wages thank you, I will look after my own financial stuff, and that will take an accountant and maybe an assistant, IT I will come to a, a licencing arrangement with ... University. Personnel service? I'll get a consultant in for that. Now the rough figures I have got would suggest that the costs would come down by about 50%. If I take that 50% and actually use it for my services ... (AS.201).

This was a common theme amongst the front line service managers; the amounts that were being charged for particular overhead services could be demonstrated to be more expensive than potential alternative providers would have charged. Most of the examples

involved some rough and ready calculations like the one above, but in NZ1 the contention that the rent was too high had been challenged with a more substantial basis:

... we get this um annual collection of statistics [Metronet] and lo and behold who is paying the most rent? [We are] ludicrously [high] relative to others, so I said look I just can't understand this, um the per metre rate that you are charging me is X, the per metre rate in Wellington is Y, and I think it was 10 dollars a square metre more here..... I got a valuer gave me a figure, that was 350 thousand dollars different, which struck me as Pretty big ... so in the end what happens, I get this token gesture to me that we'll take off 105 thousand I think it was. I mean I suppose I should be grateful, um but, it's the principle that still irks me because we still, even with 105 off we still have a rate of rental that is in excess of any other library in the country (C.100-4).

The financial officer who had supported the librarian at management team did not dispute the idea of charging overheads but described as "truly bizarre" the way the commercial imperatives for the property unit had led to such a high rental being proposed (E.40-2). So even where the front line service had no formal responsibility for the costs of the overhead, in this case the library property, the manager saw a need to challenge the costs being charged for it to the library service justified by the cost comparisons that could be drawn with other councils. And even though the challenge was backed up by evidence the central service did not concede the whole point. The librarian said that his concern was with the knock on effects of unfavourable comparisons and high user charges resulting from the high rental being charged to overheads, but the impression given is that he felt a basic concern that the amount was "ludicrously" higher than a lower, more appropriate amount.

Common Problems - Potential externalisation

The Compulsory Competitive Tendering required in Scotland by central government affected a number of the manual worker services. These had to put in a tender for their own work in competition with private sector companies. Assuming all contractors met the other tender requirements the contract was awarded on cost. Councillors in the case study councils had indicated that they wished to retain services in house. So where possible (and legal) to do so the contracts were written in such a way as to reduce the chances of the private sector tendering for or winning the contract as demonstrated by these quotes from the two councils:

Yes, but CCT was, bear in mind that [our approach in Scotland to] CCT was about how to keep things in house ... that's how it was, I can remember in the early years going to CCT strategy meeting about how the contracts were going to be structured, to make sure that the private sector couldn't get in ... (AA.123-5).

The results, the results of unwritten direction from the politicians that it would be kept in house There was nothing on paper, but the direction from the politicians was, we will keep this in house (AW.84 –86).

Even after this structuring there was some private sector competition, so the internal service providers had to construct their service cost to be less than tenders from commercial companies in order to avoid the service provision becoming privatised.

There was an incentive therefore to minimise the amount of overhead that was allocated to the direct labour and service organisations. If there was any area of doubt the interpretation would be in favour of the conclusion which allowed the smaller amount to be charged to the direct labour or direct service organisation. The extension of CCT to

some of the white collar services that had been planned by the Conservative government before the election of 1997 had highlighted the problem with this approach. As more and more of the council became subject to CCT any loading of overhead on the remainder became more obvious and difficult to justify and carry. The rescinding of that legislation by the successor government has only temporarily removed the pressure, as it has become replaced with the Best Value regime.

As well as the problems caused to the costs and competitiveness of remaining non-tendered services any grossly over-egged allocation could be picked up by the auditors:

.. the external auditor changed the apportionment of overheads, even though we had agreement between ourselves as a service and the support services that that was the way we were going to do it, he made us change them, which was unfortunate. Because he didn't feel it was fair and equitable. I couldn't disagree with him, because what we had done basically was we actually charged the whole department into one contract because that contract had been successful, which meant that the other contracts that were about to go out could go out and make a killing at a lower price, it was effectively cross- subsidisation, but ...(Z.29).

Under Best Value councils are required to look at all services to see if they are being provided in the way that produces best value for the population, (Local Government Scotland Act 2003) and if commercial providers can demonstrably provide the same quality service for less cost there is little justification for retaining the service in-house. As part of that process the fourth accounting principle for Best Value, "There will be segmental reporting of total costs" (CIPFA, 2001b) insists that all costs are dealt with by allocation to one of the standard service headings or sub-headings. The statutory auditors can decide if an allocation is reasonable or otherwise (as has already been seen) and can

question any that they consider appears not to comply with the CIPFA statement of principles, which effectively gives the force of law to the principle of full cost allocation. CIPFA, which does not have a legal power over Scottish councils, has nonetheless created a coercive isomorphism in council's financial accounts through its authorship of the Accounting for Best Value principles, which require segmental reporting and therefore full cost allocation.

Staff in both countries have been feeling pressure to make sure that the costs of their services compare favourably with other councils and potential competitors. In Scotland early overhead allocations to units in competition with the private sector may have been skewed slightly, but this becomes unsupportable as more of the council is compared to potential competition. The axiomatic problem with overheads is that they are too high. The implication is that there is a lower cost that is right. The underlying concern is about costs that reflect on the image and position of the service and service managers, yet cannot be controlled or often even influenced by those managers. Having established some problem areas the next section considers what constitutes overheads in councils and suggests a categorisation.

A scale of overheads from front line to corporate core

Local authority services are provided to the community and members of the community, and the services that actually deal with the public are thought of as front line. To support these, and to service the strategic decision making of the councillors and management the organisation also needs support services.

Support services can be located on a scale in terms of how close they are to the front line, with those further away more likely to be thought of as an overhead. So from a

librarian's point of view the Head of the Library Service is an overhead, and both will consider the Head of Arts and Leisure as an overhead, and in accounting terms both Heads' costs are overheads to the individual libraries. These departmental overheads are the least controversial because they are part of or controlled by the departments themselves.

There are charges from front line services for work performed for another service. For example Social Work paying for a building warrant for a house adaptation for the disabled or the fleet manager paying for refuse collection workers who valet council cars while unfit for full duty. Strictly speaking these are not overheads but re-charges. In the same way as overheads the manager of the receiving department has no control over the costs, but the amount transferred from service receiving department to service giving department will probably be agreed in advance, and may include an element of the overhead charged to the providing department. The mechanics of charging internally in councils mean that recharges and overhead allocation are usually handled in the same way. So the two can become confused. The officer complaining about the high level of overheads or costs outwith their control may well be reacting, in part, to departmental re-charges.

In the case studies provision of salaries and wages, personnel services, property services, IT, equal opportunities and Treaty of Waitangi compliance was made centrally, by specialist units. These overheads can be, and often are, termed as Central services or support. In Scotland there are regulatory requirements as to how these are shown in the accounts, appearing as support service costs to each service category. Although there is not the same compulsion in New Zealand the accounts are expected to show the total costs of each significant activity. So in effect the requirements are similar. To assist

clarity these will be referred to here by the more traditional name of central administrative costs.

The next stage away from the front line is costs which arise from the Council as a whole: corporate costs. This includes the cost of compliance with council wide legislation, e.g. the production of annual reports for the council, the cost of external auditing etc. These services may be run by the same people as the central administrative costs; Human Resources will initiate council wide strategies as well as provide advice on remuneration or recruitment of librarians. If the different types of overhead are allocated on different bases then central administrative costs will have to be split to reflect support provided for specific front line services and support provided for corporate costs.

Corporate Costs also include the cost of strategic planning for the authority. In the Scottish case studies there are strategy units in several of the services, as well as a corporate one for the council as a whole. In the New Zealand cases the strategy units are one to a council, solely concerned with the corporate strategy. Although individual officers in all departments may also be doing some strategic work, they will not be designated as strategy staff. This may be because the councils are smaller, or possibly the lack of the big welfare services of Education and Social Work means there is less guarding of professional territories. In both countries the cost of strategic planning has to be shown somewhere in the accounts. Scottish strategic units within departments are overheads to those departments. The corporate strategy unit is an overhead to all the parts of the council, and forms part of the corporate overhead. However, one of the New Zealand Councils had chosen to make strategy a significant activity in itself. Being designated as a significant activity meant that the costs were not charged as an overhead to any other part of the council. The other significant activities therefore did not bear the

cost of strategy and their costs were lower. This has implications for comparisons with other councils and potential competitors.

Furthest from the front line are the top level decision makers, the councillors and Mayor. Their elections, meetings, offices and so on are part of the costs of democracy. Public consultation required under the New Zealand Local Government Amendment Act 1991, and Scottish citizen's forums as well as other customer feedback exercises were also deemed to be part of the costs of democracy. The boundary between these and corporate costs creates some of the most difficult costs to define and attribute. None of the boundaries between these categories is clear cut, but this one is the messiest. In Scotland the definition of what can be included in the democratic core has varied as accounting professionals attempt to come up with a definition that is acceptable to the parties involved: Scottish Executive, COSLA and the accountants themselves. The most recent definition of the Corporate and Democratic Core Costs (CDC) (CIPFA, 1992) is wider than the previous definition but remains prescriptively narrow and still boils down to comprising all activities that local authorities engaged in purely because they are elected and multi-purpose organisations. Although the CDC is treated in the same way as a front line service, receiving its share of salary and wages and property costs, it is not seen as such. The third of the CIPFA Principles for Best Value Accounting describes the CDC as part of "the non-allocable costs"; they cannot be charged to individual services, so they have to be put somewhere. The implication is that they are really an overhead that is too difficult to deal with, and that this is money that should be spent on "real" front line services.

Scottish staff were not happy with the narrow definitions used for CDC believing that

... there's costs which are here purely because we are a local authority that are still passed onto services and not held in the CDC (Z.42).

A Scottish accountant was concerned that even within the narrow definition of CDC not all costs were being charged appropriately, so services continued to bear these democratic costs:

... people like the Director of Housing never charges anything to corporate and democratic core, though he attends every one of the management team meetings, and he goes to council and things like that. He never dreams of putting anything in. None of the other ones, the only one who attempted it once was Protective Services, and I think they gave up in the end because they were fighting, they were charging alone... (AZ.299).

It is possible that the Director of Housing sees his role as being purely Housing, and his participation in corporate activities as representing Housing interests. This could be evidence of a form of segmental thinking, especially in this council where the term 'silo' was used by several people and departmentalism seemed to be a recurring theme in conversation. It would seem that being aware of and deprecating the non-corporate nature of the way that the council worked did not lead to consciously corporate acts, such as coding management team time to the corporate and democratic core. The Protective Services Directorate on the other hand were more inclusive of the rest of the council in their use of language, perhaps as a result of bringing together their purchasing and providing sides to deliver a best value service from the previous CCT regime. It could be speculated that their geographical location also had an influence on their attitude, as they were situated in a building a short car journey from the main council site where the other departments were situated. They may have felt a need to re-affirm their position as part of the council.

In New Zealand Democratic Processes can be a significant activity. As such this category has the same importance as any of the other activities. One of the case study councils defined the costs that could be included in this activity more widely than those that are included in the Scottish definition. About a quarter of this council's Democratic Process budget goes on "elected member's participation" (allowances and remuneration to elected members), a quarter on central administrative costs, including printing and stationery and the provision of the council chamber, mayors rooms, committee rooms etc., and a quarter each on corporate entity support and committee process (mainly officer time) (D.97-101). (The Scottish Corporate and Democratic Core does not include all of these costs.) I was told that the other New Zealand council had included the costs of democracy in its overheads, although the Chief Executive confessed himself unclear as to why:

... you've got to look at what you define as overheads, I think that includes the cost of democracy, which is a 1.5 million dollar ticket item by itself, which goes up dramatically every year. I'm aware that some councils pull out the cost of democracy as a separate account. ... I'd be interested to hear the debate again with the Corporate Services manager as to why we done it the other way, whether or not we should consider changing (AJ.179-186).

A later discussion with one of the accountants revealed that the councillors' costs were being charged as a significant activity. The accountant had been working on improving the accuracy of the costs charged to the Cost of Democracy by identifying things "related to the council" which had previously been carried as an overhead to all parts of the Council as part of the Corporate budget, such as electricity for the meeting rooms and the costs of the mayor's computer (AI.273-275). The different understandings about the treatment of these costs may have arisen as a result of the recent change.

Although these parts of the council may be perceived by staff to be the furthest from their front line their costs are treated in the same way as front line services in both countries. In New Zealand the implication is that the Democratic Process costs are the justifiable cost of representative democracy. In comparison the view in Scotland seemed to be that the CDC costs are a burden to be carried. One Scottish manager expressed his view of CDC costs as additional:

... there is definitely added I was going to say interference factor, I shouldn't say that, but there is a definite added layer because you are part of a political organisation that there wouldn't be if you were part of a private sector or pseudo-private sector organisation (Z.44).

Although it could be argued that private sector managers have to bear the layer of influence of the owners this type of comment was made by several interviewees. The concern is generated from two perceived problems; the “interference factor” and the additional cost to services.

Table 6 Perception of distance of cost generators from front line services

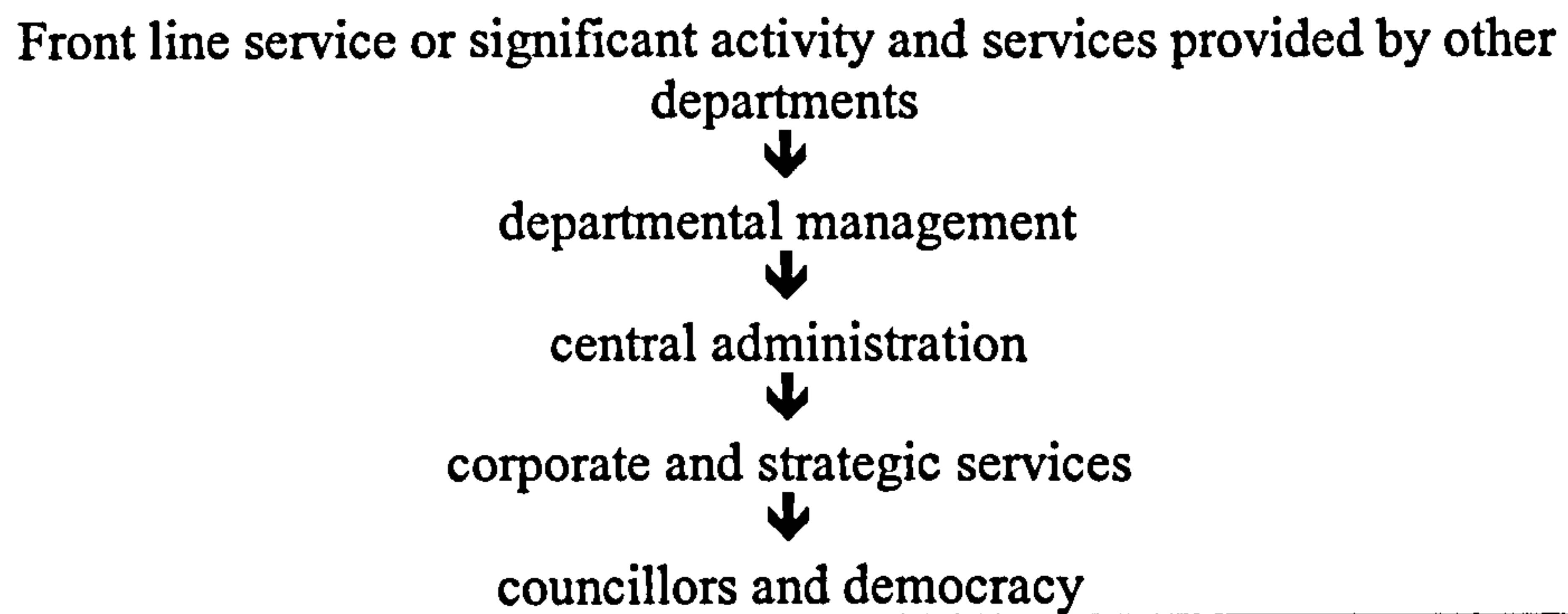


Table 7 Construction of total costs for service or significant activity

Directly attributable costs of service or significant activity
plus
share of costs of departmental management
plus
re-charges – costs of services provided by other departments
plus
share of central administrative costs
plus
share of corporate costs
equals
reported cost of service or significant activity

(With, to different extents, the Cost of Democracy and Strategy being treated as services or significant activities)

Front line service managers can only control the costs of their own services; all the other costs added for overheads are the budgetary responsibilities of others, which can lead to tension as is demonstrated by the Head of Service speaking here:

... what we've seen is over the last two years something like a 24% reduction in staff and a 38% increase in a particular level of corporate overheads, so what we are saying is, we don't, because one of the criticisms that was thrown back at the Director whenever he first attacked overheads was you had better go and sort your

own house out first before you come back and chastise us. Well this service feels that it's done that, and now we are looking to other people to do theirs, but, the further you are away from the coal face or the point of service delivery the less emphasis, or the less impact you really have in why you should be doing that. I mean there's no incentive for other parts of the council to be rigorously examining their costs (Z.38).

Although there was concern about costs being unduly inflated by other (central service) managers' poor resource control in all the councils, this speaker in particular had some justification for his righteous anger. In this council the Best Value process had commenced with the front line services, including the direct service organisations that had already spent time and effort on reducing their costs in order to win their CCT contracts. In contrast the best value reviews planned for the central services had fallen by the wayside following a change of emphasis from the Scottish Executive.

Categorisation of Councils through Treatment of Overheads

Each of the four case study councils defined and handled overheads in a different manner. This can be used as a way to view each council. It is possible to build a picture of the organisational paradigm of each council out of the visible difference in treatment of this accountancy device. This accounting lens allows a more informed reading of information on how particular accountings care to be chosen, what degree of influence is attributed to the accounting profession and a context to interpret some of the outcomes of those accountings. The way that the four councils treat overheads could be described as engineering based, commercially based, agreement based and imposed.

Engineering based council

NZ2, the Engineering Council, collects all its unattributed costs in a single overhead account, and this is then distributed over the six departments to pass on to the 50 or so significant activities which are the reporting entities of the council. The overhead represents about 60% of the total operational (running) costs of the council, which would be very high for a Scottish local authority, and is much higher than the other New Zealand case study. This is high even compared to projects in civil engineering where it is not unusual to have overheads accounting for up to 50% of the total cost. All the interviewed individuals from that council were asked about the overhead in an attempt to understand why it constituted such a large part of total costs.

The history of how the overhead account was established and what is charged to it and how it is apportioned to the significant activities was explained in detail. All staff in the council except Corporate Services complete timesheets and their hours are charged either as productive time to a significant activity, or as overhead. All of their holiday time, travelling expenses, national insurance type contributions and sick pay are charged as overhead.¹⁴

¹⁴ Corporate Services costs included central administration and were allocated to departments using proportions derived from analogues, e.g. floor space for cleaning costs, staff numbers for chaplaincy services to the council, and that total for each department was added to the departmental overheads. The grand sum which resulted was then shared out between significant activities within the department on the basis of productive hours. Although the analogues for allocating central costs to departments were quite sophisticated this detail was all lost in the allocation within departments. This led to gross inaccuracies in the overhead apportioned to individual services. For example, a department with ten people in it could have four computers and be charged for IT support on that basis. If one of the services in the department employed six of the staff the departmental overhead allocation system meant that they would be charged with 60% of the costs of four computers, even if all the computers were used by the staff providing the other service.

All of Corporate Services time counts as overhead for the authority. This is being challenged by one of the accountants who feels that of all parts of the council they should be the most transparent in their costs:

How do these people (the rest of the council) find that they are getting their worth?

Job costing is a good idea. So we, everything's just job costed and off it goes and we can prove that we have been working for you (AI.198).

The intensity of this sweeping statement was somewhat watered down by the laughing self aware aside which followed; "Mind you, we control the general ledger", but this individual was serious:

... (without costing) we become the fat cats, we could just charge anything we like, and that's a problem, that's a mindset, I believe everybody should be accountable, including us, more so us. so I'm, what I'm trying to do of course is create this thing, Corporate Services, Accounting being more transparent (AI.200/202).

However, there had been resistance from more senior management to this greater openness, so perhaps it would not happen:

Of course there's, I'm not part of the team if I'm doing that because, you know what I'm saying (AI.203).

Putting aside any questions as to the accounting correctness of the constituents of the overhead and how it is dealt with, it was interesting that no-one considered the idea of a large overhead as being inappropriate for the activities of a council. There are some items that are normally treated as overheads in local authorities, and some that may be; in particular there remains a wide variety of treatments of the costs generated by the councillors and democratic process. However, the wholesale transfer of all costs that are

not productive labour hours or direct goods and services into one overhead account is extreme, yet appears at this council to be accepted as normal.

Overhead accounts are used extensively in job costing for engineering work to handle the costs of plant and machinery, administration, safety and other costs which are incurred independently of the work being performed. Where a road-roller may be used for several projects in the same week it makes no sense to try and trace all costs pertaining to each job in terms of how much petrol has been used for that job, what depreciation applies to that job etc. So an overhead account for the machine will collect all costs relating to the machine and these are then charged out to each job that the machine is used on in proportion to an agreed proxy for use, such as time.

The concomitant treatment of significant activities as jobs to be costed is also an unusual approach to accounting for local government services but not for an engineering firm.

One of the accountants commented on the proposed council wide roll out of the job costing package to all parts of the council (except, presumably, Corporate Services) suggesting that it would answer the question "did we capture all the costs" (AN.120)?

Is it possible that the engineering accounting paradigm had become generally accepted because the engineers and the engineering function were dominant in this council? If this was so, why had the accountants acceded to it?

This council had only recently had qualified accountants. Previously the book-keeping was done by clerks and a "cash-based" accountant, who left the council at the time that there was a review of the corporate functions. This was done by Audit New Zealand acting as consultants. An accountant considered that the trigger for the review was a series of very poor audit reports. The Chief Executive ascribed the need for a review to

changes in required accounting treatments "the crossbar was getting raised higher and higher legislatively", specifically mentioning:

...the move to proper allocation of overheads, you could no longer leave them in a bucket somewhere, you had to actually have a system to allocate them ... (AJ.163).

The nature and size of the overheads was not challenged. The perceived need was for a "proper" way of dealing with them. The accountants who had been appointed following the review had not been in local authorities or the public sector before joining the council, and the senior one had extensive prior experience of working for a large manufacturing organisation and a national construction engineer, environments in which job costing and overhead accounts would have seemed normal. The accountants spent some time describing the work that they had done and intended to do to improve the recharge of the overheads. At this point nothing seemed to be being done to reduce the quantity of the overhead by attributing more things directly. Questions about the nature and size of the overhead were answered by a yet more detailed description of how the recharge was performed. The accountants accepted that the overhead was normal and appropriate:

... really you have got a cost there, that sits there, OK, it's overhead cost, there is an overhead for employing staff you know, and really what we said was jobs, put it on the jobs. Just like a factory environment in a sense (AN.276).

It is possible that the accountants, not having public or service sector backgrounds, and little contact with accountants elsewhere in the public sector, accepted the approach that they found when they arrived and created the accounting structure to suit both the environment and their own backgrounds.

This combination of overhead accounts and job costing is legitimated by the power of the engineering paradigm inherent in rural councils in New Zealand. This council in

particular, having elected councillors with a more rural background and mandate for an emphasis on the infrastructural services, would be expected to be strongly influenced by the engineering paradigm, an expectation which is borne out by the treatment of overheads.

What does this mean for the council? The overheads are carefully apportioned to departments but then split between significant activities on a single, broad brush basis which overwrites the detail. Within the organisation, although all spending is controlled to budget, it is clear that there is a link missing between some of the costs, (those treated as overheads) and the production of services. Some staff feel that this leads to suspected, if not actual slack use of resources; “fat cats” in central departments and lack of accountability. The accounting process is producing information that some felt could be misleading, leading to management decisions that might not make the best use of resources.

Agreement based council

In S1, the Agreement Council, overheads were agreed to be the costs of the centre (once the Corporate and Democratic Core had been taken out) and these were charged out on the basis of service level agreements (called internal trading agreements) between the central and front line services. In this case the central services cover both central administrative costs and corporate and strategic costs; the two were not distinguished one from the other. The support services had been structured so that each directorate had their “own” professionals in IT, accounting and personnel. These “devolved” staff were line managed from the central service centre but also reported to the front line services managers. In addition each department had an executive officer whose main task was to support the department, but also had responsibility for promoting corporate strategy. The

executive officers were charged as part of the departmental overhead whereas the devolved accountants, IT and personnel staff were costed to the central services overhead and charged out by internal trading agreement.

Both the front line services and central services considered the devolved staff to be a success, and front line services were happiest with the parts of overhead charges that related to devolved staff. The most devolved service received the most positive reports, and the least devolved had reservations expressed about it in comparison.

Other support services are supplied centrally, and were described in terms that categorised them as either 'housekeeping' such as payroll or cleaning; 'occasional' such as legal and design; or 'commercial' such as printing or maintenance. Managers considered that all these could be supplied from outside the council, as indeed catering and much of design were. There remained a recognised but un-addressed question about what parts should be subjected to competition. This subject is revisited in Chapters 6 and 7.

The overheads within departments and charges between front line services were treated uncontroversially along CIPFA guidelines, and were not mentioned by interviewees. The interesting commentary here was on the way that the agreements and charges between central and front line departments operated:

Um, and it has obvious exclusions from it which just means they can charge us whatever the heck they like! (laughter) As service level agreements go.

Q It's a service level agreement rather than a, one of the trading agreements?

A It's an Internal Trading agreement, yes. (sigh of exasperation) (W.10/12).

If these charges can be set at the selling service's discretion as implied in the first response then they are not really agreements, as it seems there is only one party to the decision. Insisting on calling them "trading" seems even more inappropriate, as that implies some bartering between both parties. No wonder the interviewee gave a sigh of exasperation. One of the accountants responsible for the work on allocations also felt that trading was not an accurate term to be using:

One form or another of trading, I say trading, we have to call it this, it's not really trading...

Q How would you describe it?

A Better watch what I am saying here ... I don't know, the viewpoint that services have I think is, they are basically told what they are going to have to pay for support services and that's it. They don't have a choice about going elsewhere, to get the service from elsewhere, so how can it be "trading" as such, I think they are a wee bit, they don't feel as though they have any input into the process at all, and basically they don't (Q.200).

Another central service manager also had problems with the term as although the service given, which included devolved staff, was agreed between departments the price was effectively imposed. Nevertheless he felt that progress was being made:

You could call them something else, but it does change the attitude. And I think we are at a relatively early stage here in using Internal Trading agreements in terms of the way, the way the services can use them to influence what happens, I think we still are, are at the allocation stage, you know they don't have much choice in the ways things happen (T.115).

The idea that changing the name of an accounting arrangement changes the attitudes of those using it is reflected in Chapter 6 in the discussion on the water business unit in one

of the New Zealand councils. At the time of the case study the only other attitude to internal trading agreements that was perceptible to the researcher was one of irritation and exasperation, and the comments reveal that the official line was perceived to be different, "Better watch what I am saying here". The front line services managers were even less sanguine:

Internal trading agreements or service level agreements, I once had an auditor tell me that service level agreements weren't worth the paper they were written on ... (Z.29).

And Finance accountants empathised describing internal trading as a "paper exercise" (S.67) where services had no control over these costs and could not make savings against them (Q.77).

I was given a copy of a proposal that the internal trading agreements be made closer to real trading, and outlining the way that could be progressed. There seemed a marked lack of enthusiasm for following that line and it was interesting that this document had no obvious author. It had been posted on the intranet for discussion prior to a management team meeting, but none of the interviewees knew who had written it. This could be seen as a variation on attribution theory: rather than retailing a story in which the interviewee played a role in the creation of a positive thing, the interviewees seemed to avoid providing any clues that might implicate them in a negative thing.

Quite apart from the issues of control over charges and the question of whether the word trading means anything in this context the accountants gave several examples of flaws in the process which further reduced the credibility of the internal trading agreements. One point that was raised by several people was that the annual agreements were made well

after the start of the financial year that they related to, thus confirming to front line services that they were 'done deals'. Some charges were not signed off until November and it was pointed out that in the "real world" (Y.45) you wouldn't take services for six months without knowing what you were to pay for them. Once the agreements were made there was no fine tuning to reflect actual events with a reduction in staff providing service not reflected in a lower charge so no other resources could be bought in to cover the work.

Although service managers had been given two weeks after issuing of the agreements to query the charges they generally did not bother. The overall impression given was that services could not influence the distribution of central costs through the internal trading agreements, and therefore regarded them as relatively unimportant.

In this council, documents called internal trading agreements were written for the distribution of the support costs of the council to be shared around the services. The documents and principles on which they were based were accepted by the two parties concerned, but both sides had problems with the idea that in practice these were either trading or properly agreements. The format and process of the internal trading agreements created additional problems. The dissatisfaction with this set up for dealing with overheads was widespread, but low key. The proposal to move towards a more commercial conception of "trading" had not gained acceptance and there was a feeling that for all the flaws the existing system did give a reasonable reflection of where the costs should lie and that it was not possible to go back to just an allocation. It seemed appropriate to call this council the agreement based council not because of the internal trading agreements but because the interviewees from both central and front line services by and large agreed with each other about this system for the charging of overheads.

Commercially based council

The third of the case study councils, NZ1, had divided itself into roughly two halves in 1993; one part being service providers and the other being service purchasers. The service providers delivered services to both the public and the rest of the council and included accountancy, revenues and payments, IT, printing, reception and telephones, estates, building maintenance, engineering works and design, refuse collection and disposal. All were combined into one business unit, which will be referred to here as 'Enterprises'. The reason given for separating service delivery was to:

... try and identify, um, the outputs or the products that were being produced in a way that could be compared with alternative suppliers. So, not with the objective of contracting it out, but with the objective of creating some imperatives to benchmark against the private sector (I.28).

As has been noted, New Zealand Councils can charge much of what would be deemed Corporate in Scotland into the Democratic Costs activity, which is what was done in this council. The Strategic Department was accounted for as a separate significant activity, so there was no need to include those costs in any overhead. As a result most, although not all, of what would have been left as overheads were services which were part of Enterprises. The overhead work was performed for front line services under "internal contract agreements" (I.227) between the front line services and Enterprises. (Business Units have no legal status and therefore cannot actually contract with anyone.)

The inclusion of so much of the council in Enterprises could be confusing. It meant that for refuse collection, for instance, the service would be purchased by the Community Department from Enterprises at an agreed sale price. The overheads related to the refuse collection operatives and equipment would be charged from the Enterprises overhead to

the refuse collection job costs. It was the responsibility of Enterprises to ensure that the price they sold refuse collection services for covered the direct and overhead costs of their service. The overheads related to the individuals who purchased the service in Community were charged to that department under a separate agreement. The front line service was split between the operatives and their managers who worked for Enterprises, and the Community staff who managed the internal contract agreement, and were actually responsible for the provision of the service. In other cases, such as the Library, Enterprises provided central support type services, but all the front line staff belonged to the Library.

At first sight the internal contract agreements appear to be the extension of internal trading agreements into real trading that had been mooted in the Agreement Council. Enterprises had first refusal of all work. This was justified as being trading by the pricing of jobs on a "commercial" basis. The figure was supposed to be arrived at by comparison with the private sector where possible, but this only applied in some cases. The original set up of jobs and pricing for them had been based on what had happened before Enterprises had been set up, and Enterprises had done most of the work on the draft contract agreements. The initial agreements included a lot of annual contracts and service provided on a retainer basis but this had since developed into a more sophisticated process, with an increasing number of smaller and better defined jobs described as "packaged in more meaningful ways for the market" (I.235).

Similar to the library rent example quoted earlier the horticultural group asked for a comparison to the market prices and (this time) jointly with Enterprises employed a consultant to find market prices for their services. Enterprises aimed to price in the

lowest quartile of the market and the findings of the consultant were accepted and have been used as the price base since then.

However, there was a feeling that not all Enterprises customers were being wise purchasers:

I think a number of the purchasing units really haven't taken seriously that role, you know, because it's still been an in house BU they haven't taken it as seriously as if they were contracting out to somewhere else. Some of those disciplines that they make themselves go through if they are contracting, or seeking tenders outside they haven't really applied inside.... (O.93).

Although one of the front line service managers thought it was up to Enterprises to show that their prices were good value the majority approach was clear on the need for the service purchasers to be responsible for ensuring they got what they needed at the right price.

In this council most of the overhead services are being provided by a part of the council that operates as if it were a commercial organisation and the overhead charge is decided by the overhead provider on a commercial basis, including a profit element. Yet the service departments were held to be responsible for what they got and what they paid for it.

Unlike the Engineering Council, which used job costing for its significant activities, this council used job costing within Enterprises. As a result Enterprises had an overhead account of its own, holding all the unproductive time, sick pay, holiday pay, etc, as well as the cost of management. The Enterprises management were concerned that this

process left their costs looking top heavy with a simple hourly rate used for jobs, but a larger and unwieldy looking management overhead added on to job cost. One of the other directors felt that some at least of the high overhead was simply because Enterprises had too complicated a management structure which replicated some of the management elsewhere in the council. Arguments arose about whether particular costs were overheads to Enterprises or to the rest of the council, for instance:

... Year 2000, so-called computer bug ... and you'd think that Enterprises as a service provider and the organisation with, the if you like the ownership of the computers and so forth would be fixing that problem. But the rest of the organisation was charged with fixing that (E2.35).

The council was in the process of extending the Enterprises principle further by grouping together all the public interface duties throughout the council into another unit, which will be referred to here as the Customer Unit. This was also intended to be a business unit and the reasons for its creation are discussed in Chapter 6. The Customer Unit would provide reception and telephone answering services for all of the council, and charge according to agreements entered into with each service. Individual reception staff would no longer be chargeable directly to a particular department or significant activity, but would be part of the costs of the Customer Unit, creating another layer of what would be seen as overheads.

Being so new it was perhaps inevitable that the charges made in the first year were cost driven, based on the hours estimated for each activity and adding on the Customer Unit overheads. One of the service managers could see a sudden hike in costs as a result.

Previously the identifiable costs were one person's salary. The addition of the less visible overheads and the overheads relating to the Customer Unit doubled the amount. These

charges were in the process of being agreed, but like the Agreement Council, rather later than they should have been. In fact the Customer Unit had opened without knowing what its income would come to, despite aiming to be a “viable business” (N.177)

Using business units to handle much of the overheads did not seem to have improved the acceptance of the overheads by front line services in the Commercial Council. The same problems as the Agreement Council of one sided negotiating positions and lack of alternatives were being complicated by the more formal separation of the two sides and the expectations that this should improve things. The additional units created to handle the Enterprises and Customer Unit work were creating their own overheads, resulting in what was seen as a total burden for front line services not unlike that in the Engineering Council.

Imposed council

The last of the four councils, S2, had the simplest system. Service level agreements were in existence, but no-one pretended that they were of any validity, and they had been waiting some years for signature by the front line service.

Q Do you have service level agreements?

A There are and there aren't. We have written them out, um, we are supposed to be working to them, but nobody's actually signed up for them. We've written them and sent them round and we've recalled them, and we've re-written them and sent them out again and no-one's ever, no-one's actually signed up for anything (AZ.277).

Nevertheless work went on, and essentially the overheads in this council were allocated by the Finance Department using what they saw as appropriate bases. The accountants thought that front line services were happy enough with the work that would be done.

But this was not entirely borne out by this front line service director:

... are people spending that time on the service because that's what the service wants? Or because that's what they think the service should have? And I think there's a perception if you like, at this end of the telescope that it's you know people are allocating their time because that's the time they think the service should have (AY.227).

An accountant reported the usual complaints about the price being charged for overheads:

They will still moan though, there will always be the oh I can get that better from the bank or the local er accountant can do it for cheap, you know, do it for less (AZ.293).

These problems caused by the market freedoms imagined by service managers are explored in more depth later in this chapter and those on Business Units.

This council had two accountants working as accountants in front line service departments (as opposed to the other Scottish council which had accountants in managerial posts in the front line service departments). Although both the finance and the front line service accountants spoke highly of one another there were areas of tension over lack of clarity in the boundary demarcation. This complicated the overheads issue by introducing the potential for things getting missed out or alternatively duplication of effort.

There was a lot of comment on the financial regulations and the way that they made day to day work un-necessarily complicated. They were described as being "More set up for strict financial control rather than best use of money" and "the most complicated system of any council I have ever encountered"(AS.217-9).

This was a council with a very strong central control concerning finances, and there did not seem a great deal of scope for or indeed interest in challenge to the allocation of overheads. This strong financial control was quite independent from the council's corporate identity; indeed, interviewees thought this council, especially the heads of front line services, had real problems with corporate thinking.

I don't think we have a culture of working corporately ... What we've got is a coalition of um empires and silos in the departments and they tend to all fight their own corner, and are very reluctant to act in any joined up way, you know ... (AV.26).

The council's management team meetings were described graphically:

... the head of personnel goes along because there are personnel issues to be dealt with, the head of legal goes along because there could be legal issues to be dealt with, the head of IT goes along because there are IT issues to be dealt with. So we have a whole er group of people who aren't directors that, who provide corporate services and they are the people who do the corporate things, the management team are the people who come and listen and um, really sit like this (disinterested pose) when it is not their subject, and it doesn't affect their service, and then when it does affect their service their body language changes and they, they move forward, and if you go along and present something corporate to them they all, (sits back again) this is not them, this is corporate. And that kind of culture is, a bit of a problem, to say the least (AV.251).

This picture of a dysfunctional management team and poor interdepartmental working was echoed in a lot of the interviews. Interviewees who provided non-financial support services felt that they had little influence in this council, in comparison to others they had worked for, unless there was a degree of compulsion behind their actions. Finance staff

were seen, and saw themselves, as bearing more authority, and a number of the interviewees mentioned the financial regulations, which, although complained about, were not seen as challengeable.

The combination of the strong finance voice and the weak corporate voice meant that allocation of overheads was seen as a finance book-keeping issue, so perhaps it was not surprising that the service level agreements had never been signed. However changes being contemplated were bringing the issue of overheads to the fore. The potential loss of Housing to a local Housing Association and consideration of putting one of the other services into a trust was raising concern about the effect of externalisation of services on overheads and overhead distribution. The next section examines what happens to overheads when services leave councils.

Externalising and Loss of Allocative Base

All of the councils were contemplating the loss of some part of their services to external providers. In Scotland, in common with many other councils, the two case study councils were in the process of consultation on transferring the council house stock to housing associations, and the question had been raised in one council of transferring part of the Leisure facilities to a trust, and in the other of privatising the Reprographic section. In New Zealand both councils were contemplating externalising parts of their services, either by contracting work out or by selling an operational unit. Losing services has implications for the distribution of overheads and therefore the overhead costs charged to the remaining services. Two councils particularly were concerned about these effects, one in each country.

Housing externalisation

In the Imposed council the probable externalisation of the Housing service was just beginning to raise concerns about the knock on effects on overheads at the time the case studies were being carried out. In common with other Scottish councils the result of any tendency in the past to understate the support costs chargeable to the in-house CCT providers, the Direct Labour and Direct Service Organisations, was that other parts of the council had to pay more. One part that could be overloaded without increasing the Council Tax was the Housing Revenue Account (HRA). Council housing in Scotland is accounted for separately from the remainder of council services, and the HRAs have been required to break even without support from the general revenues of the council for the last 15 years. Rents are set to cover the net costs of the HRA including those overheads charged to Housing.

In addition to the Housing proportion of general overheads other things got charged to Housing. Some of these that applied to both private and public sector housing were items that could have been thought more appropriately charged elsewhere. Examples given were occupational therapy, playgrounds and grounds maintenance. Occupational therapy provides adaptations to houses and aids to daily living for people who become disabled. The service is situated somewhere between health, social work and housing. If there is a large amount of work being done in council houses it could be seen primarily as an HRA service. Similarly playgrounds and grounds maintenance serve mixed communities, although charging all the costs to the HRA stretches credibility a bit far when whole communities have exercised their right to buy their council houses, and the remaining tenants in less desirable areas are paying rent to maintain playgrounds entirely surrounded by privately owned houses. I was told that “when stock transfer happens we

won't be able to load things on the HRA, so ... we need to make sure that what we charge is accurate (AN.54).

The impact of the Housing service leaving council ownership is therefore likely to be greater than for any other service, even one of similar size. The services that the council has been charging to the HRA will have to be either transferred with the Housing service, provided as an agency to the Housing Association, ceased, or re-deployed to service other parts of the council. If the services are transferred out then the effect on the council's finances is neutral, and if the council can sell agency services to the Association the charge might include an additional profit element. But if the Housing Association does not need or want those overhead services then the council has to absorb the costs either by reducing the total service, or by increasing the service given, and charged, elsewhere in the council. In the Imposed Council the Finance department had undertaken an impact study of the effects of Housing externalisation, and central services were expecting to do some short to medium term agency work from the Housing Association, but not sufficient to cover the full central administration charge.

In theory the overhead created by the salary and wages service for instance could be dealt with by either transferring a wages clerk to the Association, providing wages services to the Association for a fee, making the clerk redundant or re-deploying in the council, or moving the clerk to help with education wages and charging Education for the costs of the post. In practice the case study council's Housing Department is too small to need a whole clerk, so the first and third options are not viable, and the best the council can hope for is a few years of option two followed in all probability by option four. All the overhead generated by the central administrative services is potentially similar. One of the reasons that these services are provided centrally is because of economies of scale, so

a single front line service will not generate sufficient work for a group or even single person, but use the services of bits of many people. This does not mean that it is not possible to reduce overhead service and cost by reducing staff, but it is not a simple thing to do.

The hope that this council's central administrative services will pick up some agency work is justifiably faint. Examples from the other councils of externalised services, to trusts, wholly owned companies and other non-profit bodies highlighted the enthusiasm of the managers of these bodies to do what they have been wanting to do for some time, and throw off the shackles of the council's central services. The managers of the English NHS trusts, grant maintained schools and housing associations researched by Birchall, Pollitt and Putman similarly exhibited a desire for a greater degree of autonomy (Birchall et al, 1995). In their case the freedom was from political as well as bureaucratic control, and it is interesting to speculate how much desire for autonomy comes from political and strategic enslavement, and how much from the more instrumental constraints of central administration. As a manager from the Commercial Council put it:

One of the things I learned from that was that ... they want to have control over what it is they are doing, and trying to enter into um, sort of friendly negotiated we will do this and charge you that, it's just not worth it. Bitter experience tells me, both, and it's just, if those functions are going to be exiting out of the organisation you are better to recognise that up front and er, just take it on the chin. ... Buggered if I am going to go through it again (P.21).

The corporate and democratic costs are even less likely to be susceptible to reduction, as their services are to the council as a whole, and the removal of one service does not stop the council being a multipurpose organisation run by councillors. So these costs at least

will have to be carried by the remainder of the council. The externalisation of Housing is bringing home to managers in the Imposed council that these same overheads that they have been moaning about for years are potentially a much bigger problem. The re-allocation of Housing support service costs will mean "I will be paying more next year to the administrative tail than I am this year, for no increase in services" (AS.203).

Small services that may have left the council previously had little effect on the amount of overhead services were charged, but Housing is a medium sized service as far as staffing is concerned, and a large one in terms of turnover. If overheads have been charged to the service in proportion to staff numbers or especially in relation to gross expenditure then the impact of externalisation on the remaining services, as can be seen from above, will be considerable.

Dogs

In New Zealand contracting out of services has been going on for some time, as the smaller councils rationalise their activities and use other councils or outside specialists to cover their minor responsibilities. In the Engineering Council the knock-on effects of externalisation had become very visible and topical as a result of contemplating the contracting out of the Dogs service. The "normal" problems with externalisation were exacerbated by the peculiarities of the council's overheads system, the structure of the department that included the Dogs service and the high public profile of the service. This had led to the problems of Dogs being used as shorthand for all problems to do with contracting out and overheads.

Dogs was included in Rural Services which had, bit by bit, been externalised in the period since reorganisation in 1989. From employing all the inside and outside staff the service had become one of "just managing the contracts, instead of managing staff" (AK.16).

The main group of staff left in the service were the dog control officers. Compared to the UK, where dog control is usually a concern for urban areas, the main impetus behind NZ dog control was animal health in rural areas, where the government intervened to make sure that all dogs were dosed against worms every six weeks. This was only partially to do with canine health, and rather more to do with ensuring that agricultural exports from NZ were clean of infection. So although all councils have dog wardens and dog pounds for strays, and responsibility for making sure dogs are appropriately housed and treated, the rural councils bore the brunt of carrying out the dosing programme. There is a deliberate mixture of tenses here, because as a part of the general move from welfare state provision towards a user pays philosophy the government have withdrawn from the dosing programme.

... Dog control in NZ we used to dose every dog, every 6 weeks, for the um, tapeworm and other worms they get, mainly because of the effect on the export of mutton to Europe, and more recent years ... they reduced it back down to only farm dogs, or dogs going onto farms, and then finally the government said well hang on, is it a local government problem or is it a farmer problem, if you are exporting meat then surely you should be keeping your dogs free of um any infection, ... from national side there used to be a what they called the Hydatids Control Council or something, they made, they decided no more six weekly dosing, so we don't do it (AK.24).

As a result the work load of the Dogs section reduced to monitoring and registration of dogs, education of owners, inspection of property and handling complaints.

The funding exercise involved in the Local Government Amendment (Number 3) Act 1996 required that, for all significant activities, each council should consider what proportion of the funding should be met from private funds and what proportion from the public purse. (This funding split is more extensively covered in Chapter 8.) The government had effectively stated what they considered the correct public/private split for Dog funding by withdrawing from dosing, and it would have been difficult to justify any alternative. So the proportion of costs expected to be met by the users of the service was increased. This did not play well with the public, producing a lot of representations to the consultative process of the annual plan. Indeed, the dogs' owners went further with a public demonstration outside the council buildings.

In order to contain the unrest, the council re-examined the case and compared their charges to other local rural authorities. It was decided to reduce the fees to figures that seemed in line with the other councils, and in order to retain the user pays percentage that meant reducing costs, making the annual inspection biennial and reducing staff. Three problems were encountered: continued pressure for yet lower fees from "strong rural councillors and rural people" (AK.26), resistance from the Rural Services staff to threats to their jobs, and the dead weight of the overhead.

The accounting for overheads in this council created a problem with reducing the Dogs service. The overhead allocation system spreads a large corporate and departmental overhead on the basis of productive hours. The reduction of a post would reduce the productive hours total for Dogs, and thus the overhead charged. However, the Dogs staff responded to the reduction in the workload and the implied threat to their position by proposing additional work on the educational side and stating that the job required

continuous cover. Where staff are trying to maintain the need for the service it is likely that a reduced establishment would be recording a greater proportion of their hours as productive, possibly by working “productive” overtime. Although this will reduce the overheads total marginally (as less of the Dogs operatives time gets charged to non-productive hours), a far greater amount would be charged out on the basis of the increased productive hours of the remaining staff. So the overhead charged to Dogs would not reduce by the same proportion as staff had been reduced.

In any event if productive hours are reduced by reducing staff numbers then the overhead amount per hour increases for the remaining productive hours of the department. Dogs are one of the last parts of the department to be provided in-house, and so any reduction in manpower is a significant reduction in the divisor for the overhead add-on. Of course this meant that costs for other parts of the department would also rise, which is what had already happened as other services had “gone on contract around them” (AK.122). The overhead allocation is an inertial drag on reducing total costs by reducing staff in house. This, combined with the opportunity of examining the service provided to see if it is what “the ratepayer needs or is prepared to pay for”(AJ.238) and externalisation of the manpower problems concerned with reducing the service, makes the idea of contracting out very attractive. However, contracting out does not solve the problems with the overhead as “every time under our current system we contract out you increase the overhead multiplier on the surviving staff” (AJ.186).

One of the managers suggested that as a result there was pressure on the accounts people to find new ways of calculating overheads, another manager thought that each contract should bear an administration fee to offset the overheads. Both solutions both come from managers rather than accountants, which reflects the minor role played by accountants in

the Engineering Council. Neither of these suggestions (changing the calculation of overheads or charging an administration fee to contracts) actually reduces the total overheads being paid for by the ratepayers, it merely spreads it around less controversially. These proposed solutions are changes in accounting procedure, which seems appropriate for problems that were caused in the first place by the system for allocating overheads.

Dogs started out as an awkward fit in a group of services much of whose provision had moved outside the council. The requirements of the Dog service have been reduced by the government at the same time as the government required councils to implement “user pays”. The increased charges for the service have come up against a swing to a more rural dominated council; indeed the charges fuelled the rural backlash against the perceived urban bias of the council. The staff of the Dog service combated the change in their workload with other worthy work, and one of the possibilities of avoiding the manpower problems that loomed seemed to be contracting out. However, the system of overhead recharging meant that both cutting internal staff and contracting out were bedevilled by large structural fixed costs which had to be absorbed elsewhere in the council and were not susceptible to easy explanation.

Main Issues

The subject of overheads provides a number of insights into the operation of the case study councils and the place of accounting within these organisations. The accounting that is being done is largely the result of the requirements of the accounting profession, and one of the consequences of this accounting is that it emphasises the mutually exclusive boundaries of individual services. This chapter has explored the way that the costs of the support services are treated, and the perceived impact on front line services.

The role of accounting in sharing out the overhead costs affects and reflects the relationship between these two parts of each council. The strength of the parts is unequal when it comes to overheads: it seems that the paying front line service has little influence over the costs of the charging support services, and the establishment or otherwise of quasi-legal agreements and contracts would appear to make very little difference to this. The accountants are placed in the middle, refereeing this game between uneven sides, and rather like a referee have the ultimate control, insisting that the allocations be done even if objections remain. It would seem that the process is a constant irritant to the officers concerned, both the managers and accountants, one of whom questioned if the effort was worth it:

... should we all be chasing our tails in here getting very sophisticated about internal trading or should we be focussing on the customer out there? (Y.47).

But certain instances bring overhead allocation to the fore: peer council comparison, external competition, and particularly externalisation of services and subsequent reabsorption of those services' overhead. In these situations the managers of the front line services say they are driven to consider alternatives. In both Scottish Councils the accountants and other central services staff had defended maintaining in-house services because of the provision of expertise which is not appreciated by front line services; the step behaviour of manpower and IT costs; and the tendency for Service departments to end up employing someone themselves to do the work they have taken away from the central service departments. Although, as a result, externalisation may be unlikely to save anything, economy may not be as important as having control. This is considered more extensively in the next chapters on Business Units.

Using accounting - support services and front line services

The most important reason that overheads are allocated is because the accounting profession requires it to be done, effectively with the force of law. It might be expected that the result would be a form of coercive isomorphism yet the methods used to allocate overheads were sufficiently different to raise the question why. The overhead systems used reflect the circumstances of each council, to the extent that they can be used to describe the environment in which each council operates. Recent and proposed changes seemed to accentuate these “locality effects” (Urry, 1987).

The use of a form of service level agreement in three of the councils suggests more isomorphism. But none of these agreements really worked in the way that interviewees felt that they should. In Scotland the use of service level agreements had been promoted by CIPFA since at least 1989, when I attended a CIPFA training day on the topic. They are taught as part of the CIPFA qualification as a proper method of creating the correct cost of services for transparent reporting. The use of service level agreements would seem to be a normative isomorphism. But despite this fifteen year history it appears that of Pollitt’s four stages of convergence only two have really been achieved: discussion and decision (Pollitt, 2001, 2002). Where the two sides to an agreement have unequal power and knowledge, and the budgets are still held by the providing service there is little incentive for effort to make them work. The sharing out of support costs, although called agreements, looked more like, and were said to be, allocations. Service level agreements seem to be an instance of virtual isomorphism.

The role of the profession – the invisible overhead and non-allocable services

The Accounting Institutes in both countries are intimately concerned with the treatment of overheads, not least because it is the profession that requires public sector overheads to be allocated for the production of financial accounts. By comparison the private sector may account for overheads in their published accounts by showing them as administrative, marketing or distribution costs. There is no requirement for a company to allocate overheads between products or divisions. The public sector on the other hand has a duty to produce accounts for the public that cost each service or significant activity. This has been a change that has taken place over the last 20 years. Previously the accounts for a council would feature headings for administration costs, personnel costs finance costs, etc... (What was referred to earlier as "in a bucket somewhere".) In both countries these costs are no longer visible in the accounts, each of the overheads having been swallowed in the allocations to the costs of front line services.

In one of the Scottish councils, as part of the argument against externalising support costs, an accountant pointed out that “the council's got a fixed cost investment in its own computer systems which isn't going to go down” PL49. The computer costs appear to be a common thorn in the side of councils when they are reducing the size of their overhead, with long term contracts entered into to provide computing capacity for the range of services in place at the start not being amenable to reductions to reflect externalised services no longer needing council IT support. This cost of history has been explicitly recognised by CIPFA (CIPFA, 2001b) and un-used computer capacity purchased for a subsequently externalised service is one of the few items that can be left unallocated. (The problem with the computer contracts is recognised as having been caused by their high value, long term nature and service specific design.)

The addition of an unallocated category to the accounting code allows these costs to be excluded from the general CIPFA attempt to segmentalise all the costs of Scottish councils. The process is intended to produce comparable standard formats for each service to aid transparency and accountability and comparability. However a side effect is to emphasise the separateness of each of the parts of a council, and to report each segment as if it were a complete entity. The creation of the unallocable category for computer contract 'overhang' was in response to feedback from accountants in the field and is a reminder that councils are multi-purpose authorities not simple collections of segments.

Consequences – images of the centrifugal council

One of the advantages, and pleasures, of using an ethnographic approach to this research has been the space it allows interviewees to describe their world using images. There were four particularly revealing images used in discussing overheads, some of which appear in the quotes used earlier in this chapter. The four are:

- tail wagging the dog;
- house on the cliff;
- circle and segment;
- telescope

Despite the evident knowledge of how overheads are distributed, and sophisticated discussion of the overhead problems associated with externalisation of services, many of the front line service managers interpret the imposition of high overhead charges as being simply the result of high overheads. If this is combined with a resentment of central services control within the council then the concerns coalesce about the relative size (in

many senses of the word) of the corporate, central part of the council compared to the front line services.

To illustrate this point a particular image was used by four of the interviewees in three of the councils: the tail was wagging the dog. The idea that the front line services were the dog, and the support services the tail fits in well with the notion that the important parts are the front line services. This image was used by front line service managers in the Engineering and Imposed councils but also by corporate service managers in the Commercial Council where the tail was not just the central administrative overheads but also the other services included in the Enterprises unit. One can imagine that reducing the dog by externalisation of services would cause the tail to unbalance the dog. Of course, as was suggested, a smaller tail would be more manageable for the poor animal.

The implied notion that the problem was being caused both by the continual growth of the support services and the loss of front line services to externalisation was better illustrated with another very graphic image, this time from one of the engineering managers:

... if I take part of the service out, OK? all that would happen by and large to charges is that they would be reapportioned amongst a smaller base. It's like a house on a cliff, and people keep building extending a house by sticking conservatories on, they put another bathroom there but what you've got underneath the waves are beating away, and ultimately the whole damn thing is going to fall in the sea (Z.34).

The interviewee appears to consider that changes in support services usually result in additional costs; the addition of a conservatory, or another bathroom, rather than an improved bathroom. The new job titles in the support services such as Best Value Officer

or Quality Officer might suggest additional posts and therefore overhead costs, but, in both these instances anyway, the postholder had been transferred from other duties, and there had not been additional establishment. If this is usually the case the front line services do not seem to have received, or have chosen to receive, the message.

The erosion of the cliffs is leading to collapse of the house as the result of externalisation. It is interesting to speculate which part of the analogy represents the front line services, the cliff, the foundations, or the original house? In all cases it would seem a more substantial and important part than the new extensions, although perhaps this is an area of metaphorical holistic fallacy.

Those costs that have not obviously arisen from front line services have to be accounted for, and the process of examining the methods used by the different councils has provided a way of visualising the organisations and the way that they view themselves. The idea that the overheads come from the core of the council and front line services are at the edges reinforces the notion of the council as being a series of concentric circles. Each service or significant activity is a segment of the circle and includes the front line, its central administrative services, its corporate services and its democratic core.

Although nicely illustrating the concept of overheads relating to each service there are some drawbacks with both aspects of this two dimensional image. The diagram implies that all the services of a council can be separated out into their segments and that by extension the segments can be separated and floated off with ease. The power of a multi-functional organisation to derive synergies from the combination of functions is not visible. A simple example of the potential benefit generated came from one of the housing managers:

Well, private contractors ... will do exactly what the contract says, you know; fix a leaky tap. Now our DLO would fix the leaky tap and notify Social Services that there was an old body in the house that can't manage to use the taps and needs an aid or adaptation. That's the added value that you can't put a price on (AG.70).

Also being two dimensional the diagram cannot show the many areas where each service impinges upon others. The example above concerns housing, building maintenance and social work, but social work also has connections to education, leisure, and environmental health, among others. A two dimensional diagram would be hard put to show the connections between services which led to a very enjoyable archery session for the elderly in a local library!

The placing of the overheads towards the centre shows them as smaller than the other parts of the council but also at the heart of the organisation. This may be correct, but the diagram enforces this view, with the implication that control and power are exercised from the centre. All the words that can be used for the centre of a circle have an emotive loading in addition to their diagrammatical placing: heart, core, and centre. The front line services may consider that, at best, much of overheads represents necessary housekeeping, and it would be inappropriate to place centrally, much less endow them with additional significance. And not just the front line managers, a manager from the corporate centre confessed:

Oh, I find the whole thing, um core quite difficult actually. Um, (the Chief Executive) has a saying that the core is the thing that is left over after you eat the apple, who wants that anyway (O.274)!

A third aspect of the “circle and segment” image is that the front line services are the only ones that have any contact with the outside world. Where do the councillors fit in? If the

terminology used to describe the council structure, and hence the image in people's minds, is of a kind of dart board the councillors should be in the golden bull's eye, the most important and highly rated part of the image. This does not fit comfortably with the view from the edge of the circle, that everything behind them and towards the centre of the circle is overhead to the "real" work of the front line. This illustrates the problem with treating the Costs of Democracy as a service or significant activity, or CIPFA's referral to them as part of "the non-allocable costs" highlighted earlier. It is difficult to constitute these costs as anything other than an anomaly given the prevailing image of the circle.

The fourth of the images is of a telescope, and was used instead of the circle and segment to describe the positioning of a front line service. The expression used was "at this end of the telescope"; the implication being that the front line service was at one end and the central service provider at the other. Which end was which was not specified, but assuming that the front line services are situated at the broad end and the central administrative, strategic and corporate services somewhere about the focussing ring the councillors can be at the eyepiece, and therefore have contact with the outside world. The image also allows for all the front line services to touch each other at the centre of the broad end, and thus overcomes that objection to the other image. However, it was not clear that the telescope actually represented all the services, it could have been one service and its relationship with the support providers. I have chosen to consider it as a three dimensional version of the circle and segment, which overcomes some of the difficulties with that two dimensional image. However, the speaker could have intended simply to indicate that there was some distance between his front line service and the centre.

The images examined here are not being used in the same way as Morgan's Imaginisations (Morgan, 1986). The various metaphors he proposes are used by the researcher to consider and interpret an organisation, rather than arising as a form of description from the actors in the researched organisation. However, he suggests that his metaphors "shape how we organise" (p383), and it is possible that the circle and segment image in particular promotes the organisation inherent in its graphic metaphor and constrains alternative views. If this mapping of relationships within the organisation fits with the recipient's conception of those relationships then it is easy to adopt the image as mental shorthand. All the metaphors are being used to distinguish one part of the organisation from another, not surprisingly given the context of allocation of overheads to front line services created by the accounting profession. However, the problems discussed in Chapter 4 concerning the catchiness and reductionist nature of metaphors, and the danger of holistic fallacy on behalf of both the researcher and metaphor user apply here. The widespread use of these metaphors in itself may be encouraging actors within the councils to consider individual services as separable from the council whole.

This chapter has examined a basic tenet of accounting as practised in each of the case studies. This has revealed a body of perceptions about more than the accounting device examined. The relationships between parts of the councils, and the relative influence of the accounting professions have moderated the accounting method. The result has been used to characterise the case study councils. The next chapter considers the outcomes of creating trading entities within councils, and opening internal provision of support services to commercial competition, which could be considered as the next step on from the service level agreements and trading agreements considered thus far.

Chapter 6 Business Units - Categorisation

Business Units (BUs) are parts of councils that are accounted for as if they were separate entities to the rest of the organisation. Although their management, aims, ethos and governance may be different to other parts of the council they have no legally separate status. Their existence is defined by accounting, which provides a particular visibility of part of a council's activities by treating it as if it were separate commercial body. Because accounting is so intimately involved with creating and operating BUs they provide many instances of people making accounting choices, which provides some of the answers to the first key question of how were people involved in local government using accounting and to what end? This close relationship between accounting and BUs also provides insights into the second key question concerning the role of the accounting profession in providing an isomorphic impetus to commercially shaped accounts. The topic of BUs provided a great deal of critical commentary, which can be analysed to give some of the consequences of these accounting processes.

This and the next chapter are about business units in the case study councils. These exhibited a wide range of characteristics, leading to much discussion in the interviews. I have split the results into two chapters, the first essentially descriptive and the second analytical. In this chapter a framework of three groups of business units is drawn up using the New Zealand case studies. The Scottish case study business units (which are less varied), are placed in this framework. In the next chapter these categorisations are used to examine the concepts and contradictions that appear to underlie perceptions of business units and the light they throw on the key questions.

Local Authority services in New Zealand are carried out by a mixture of private sector and voluntary organisations, community trusts and the councils themselves. The councils provide services through direct provision, through business units (BU) within the council or through Local Authority Trading Enterprises (LATEs)¹⁵. Unlike companies and local authority direct provision, which are regulated and defined by legislation, there is no single definition or model for business units. They are mentioned in the legislation as an allowable method for provision of certain services that would otherwise have to be provided outwith the council, and the Minister may determine requirements for their formation and operation (Transit New Zealand Act 1989) but there is no definition of what is meant by the term. As one of the interviewees said:

... the notion of a BU means different things to different people and can mean any range of things ... (E2.52).

An essential part of the understanding of business units is related to accounting for their activities, and this, combined with the uncertainty over their nature, leads to an interesting area of enquiry into the relationships between management and accounting.

What is a business unit? There is no standard set of rules to delineate a BU from the normal running of council departments, and there is a range of in-house structures that are called BUs. If there was a scale for local government services that had direct provision by a council department at One and contracted provision by private companies at Eight, business units (BUs) as used in New Zealand would vary from two to five. Table 8 Arrangements for Service Delivery- Scale between Contractors and Internal Provision suggests eight scale points, although these are not discrete.

¹⁵ which title attaches to any company majority owned by councils or organisation over which councils have significant control

The Scottish equivalents to the BUs are the Direct Labour and Direct Service organisations (both will be referred to here as DSOs) covering most of the manual work undertaken by the councils.¹⁶ Any council that wished to retain the provision of the CCT services in-house had to establish a DSO and the DSO had to tender for work, and win, essentially on price. Unlike the New Zealand BUs the DSOs had a quite explicit legislative and accountancy framework laid down in the acts and subsequently amended. This placed them on point Four, Business Unit III of Table 8. Some Scottish Councils had other services which were also structured as BUs which could fit anywhere on the Table from point Two to point Four.

¹⁶ Direct Labour Organisations were established under the Local Government Planning and Land Act 1980 and applied to building, roads and water works. Direct Service Organisations were established under the Local Government Act 1988 and applied to collection of refuse, cleaning of buildings, other cleaning, catering for purposes of schools and welfare, other catering, maintenance of ground, and repair and maintenance of vehicles.

Table 8 Arrangements for Service Delivery- Scale between Contractors and Internal Provision

| | | owns assets | owns service value | council accounts | instrument of control | governance | Profits | risk |
|---|----------------------------------|------------------------|------------------------|--|--------------------------|---|--|------------------------|
| 1 | Department | council | council | asset and operational costs under each significant activity | direct or SLA | direct | none identified | with council |
| 2 | Business unit I | | | accounted for separately, overs and unders re-spread over user departments | SLA or internal contract | manager for business unit | goal to break even, no profits identified | |
| 3 | Business unit II | | | accounted for separately, return for business unit reported | | board of council officers | goal to break even or small return, profits or losses put to general rate fund | |
| 4 | Business unit III | | | | | board of officers and members | goal to make set return at least, profits available to rate fund | |
| 5 | Business unit IV | | | | | board of councillors, officers and business persons | goal to make return to rate fund, surplus held in business unit | |
| 6 | LATE | council (through LATE) | council (through LATE) | investment in LATE | contract with LATE board | board of business persons and councillors | returned to council | with council as owners |
| 7 | Franchise (operational contract) | council | contractor | assets on balance sheet, operational costs as payment to contractor | contract with franchisee | outwith council | with contractor | depends on contract |
| 8 | Contractor | contractor | | operational cost as payment to contractor | contract with contractor | | | |

The BUs set up in response to the Transit New Zealand Act 1989 mainly covered the manual work associated with roads maintenance and construction. A second wave of New Zealand BUs were set up as a result of legislation requiring that the design and management work for state funded roads also be contestable. In addition some councils had created business units for other services, and one council had re-defined all its structure into BUs. At the time of the research the answers to the questionnaire showed 170 BUs (and 55 LATEs) in the 72 New Zealand councils that responded.

The Scottish councils were mostly successful in winning their work, and the two case study councils had retained almost all the CCT services in-house. One of the councils had three DSOs and the other had two. One of the New Zealand case study councils had one business unit and the other had three, and was intent on creating at least one more. Between them the four councils produced a rich commentary on business units

The Scottish DSOs all feature services that could be provided by existing private sector companies. Services like these were described as contestable in New Zealand. As well as BUs for contestable services the New Zealand councils also had BUs for services with separate revenue streams and for public goods services. Each of these three types could be named using other features or descriptions. For instance the first group could be called commercial services, and the second utilities. But I have employed the terms used by the interviewees. The categories are not mutually exclusive, but are intended to highlight the emphasis placed on certain service characteristics by interviewees while discussing BUs.

The three groups are listed in a perceived descending order of general acceptance by interviewees from the New Zealand council that had experience of all three types.

Features have been drawn for each category from the comments made in questionnaire responses and interviews in both countries.

Contestable Services

These are services that are also provided elsewhere in the community by private individuals or companies. The Scottish DSO legislation applied only to services that fell into this category, one of the justifying principles being that the competition would ensure that the costs falling on the public purse would be minimised.

In the Engineering based New Zealand Council a BU called Works had been created in 1990 for all the engineering, recreation, parks and cleansing operatives and their plant and equipment. In 1996 it was made into a LATE. In 1997 this was sold to another Council's somewhat predatory LATE, and as part of the deal the Council had to continue to give the new owner first refusal of all work for three years. The new owner has since been sold by the other Council to a commercial contractor. This progress is seen as not uncommon for New Zealand Councils and I was told "... most councils in NZ have done exactly what we've done, nearly without exception ..." (AO.97) although the returns from the questionnaires show that this perception of what other councils have done overstates the case. When further regulation required that the design and management work for state funded roads also become contestable, the Engineers Service was divided into Asset Management and Professional Services. The Asset Managers were responsible for maintaining the infrastructure, which required a knowledge of its condition and managing the budgets for maintenance and new works. Professional Services provided design and consultancy work. This split all of Engineering work into either purchasing or providing, with the Asset Managers commissioning the services of the professional group. In 1997 the head of Engineering retired and the opportunity was taken to change the job

descriptions of the managerial posts. The Professional Services unit was named Consultancy and called a business unit, and its management and financial structures changed. From then on the Consultancy manager reported directly to the Chief Executive instead of the Engineering director, and the unit had no budget of its own, but had to 'earn' their money from work done for the Asset Managers who remained in the Engineering Service.

In the New Zealand Commercial Council the Enterprises Business Unit was set up in 1992 to provide what was described as all the service delivery elements of the council's work as opposed to the regulatory or strategic elements. It included the council's manual workers: refuse collection and disposal, parks, and the works people (water, sewerage, storm water, depot and roading), and also the white collar providers of printing, IT, exchequer, accountancy, design and engineering design services. The asset managers commissioned Enterprises to do design and maintenance work in the same way as the other council's asset managers commissioned such work from their Consultancy BU and the commercial firm which had taken over the LATE.

Most of the Commercial Council's interviewees considered that some at least of the services within Enterprises should be designated contestable and compete with outside providers for the work. Most also accepted that it was normal for these services to be provided separately from the rest of the council's work (within Enterprises) which may have as much to do with eight years of custom as ideology or considered opinion.

Accounting provided to frontline services became part of the BU: work for the centre of the council was left with a Finance section. However, because the exchequer section within Enterprises owned the transactional side of accounting it decided how the ledger would be run and this upset the manager of the Finance section. The central finance staff

had to rely on the decisions and service of accountants and exchequer staff who were not reporting to them, and so felt they had insufficient control over the creation and format of accounting records. Despite apparently contracting with a businesslike unit the front line services had to take what they were given. (Somewhat similar to the situation with service level agreements discussed in the last chapter.) The conflicting benefits of using in-house providers or opening work to competition and the issue of what is and what not “core” are examined further in the section Purchasing rules.

Interviewees from within Enterprises saw the business unit structure as a proper way to conduct their services. Most comment about Enterprises from outside the unit concerned two problems. The first was the size of the unit and the way in which it presented a monolithic exterior to the rest of the council and councillors by accounting for itself as a single entity. The second problem was with the purchasing rules which required other departments to use BU services. This was a common problem in all the case studies.

Size and monolithic structure of Enterprises

Because Enterprises had been created to take on all the service delivery for the Commercial Council it comprised over half of the council staff. Despite all the strategy and planning functions being in the other parts of the council the size of Enterprises was thought to give undue influence in council decisions. The sheer size of Enterprises meant that it was difficult for the corporate parts of the council to impose their wishes. For instance there were comments from both the corporate side and Enterprises about attendance on the corporate training programme, which duplicated some of Enterprises own programme, and yet was supposed to be compulsory. The Enterprises managers complained about the compulsion, and the corporate managers complained that the Enterprises staff did not actually attend!

Enterprises was organised, and accounted for itself, by job, rather than by type of work. Each job for the rest of the council was priced, and it was only that figure and the totals for all of Enterprises that could be seen by councillors or other council staff. All costs were allocated on job numbers, and Enterprises management could see for each job what contribution had been made towards Enterprises' central costs and profit. There was no information available to other parts of the council on the profit or loss being made on the jobs for which they were paying as it was considered by Enterprises that this was not anyone else's concern. This lack of transparency would be the same state of affairs if an outside company or a LATE provided the service, but that was not mentioned. Instead interviewees from outside Enterprises expressed concern that this situation might be hiding inefficiencies or areas that were not "paying their way" within the BU.

The purchasing services couched their concern about the price they were being charged in terms of worry about cross subsidisation within Enterprises. If the principle of charging a market price for services was working then the recipient services should have been happy with what they were paying, assuming that the service was as required. The problem seems to have been with proving the prices really were commercial. Each comment of this sort was in the context of the cost of the Enterprises service to the recipient part of the council. A couple of examples were mentioned by several people, and it appeared that Enterprises had used the purchasing rules to establish dominance in the relationship in the handling of these, by stating that they were acting in a businesslike way and refusing to compromise or justify their decisions.

A new member of the management team was proposing to introduce a set of publicly reported performance measures for the BUs. The non-Enterprises interviewees saw these as a way of providing assurance about Enterprises performance. (The proposal was not

seen as being useful by the Enterprises management.) The annual budget and accounts did not show any details of the BU costs which had all been charged against the significant activities. The new measures would give the BUs a separate report, allowing comparison against comparable businesses and were expected to make its performance more transparent by giving an independent view.

... [instead of] Enterprises gets consolidated and you sort of lose sight of how it's doing etc., to almost have a separate report on the BUs, how well they are performing against what targets were set against other comparable businesses or BUs, that sort of thing, and be actually giving the council some advice about well, yes you are getting a good service and return from this BU here, that you know, you have theoretically got money invested in, and now you are not over here and you need to do something about it type um. Um, so I think that will make it more transparent from the point of view of how the BUs are performing, um, and I guess will help get away from what I said earlier about the tail wagging the dog, in that someone else will have a more independent view of how they go on (O.91).

The (non-Enterprises) manager here was talking of using accounting terminology and reports to enforce a better visibility of the BU's operations. This perception that Enterprises were not required to and did not operate in an open way was despite the fact that the management board of the BU included three managers from the rest of the council.

In Scotland the DSOs also kept the details of their trading accounts private on the basis of commercial sensitivity. Committee meetings at which they were discussed were held in private, and their detailed accounts did not form part of the council's published accounts. However there are several differences between the operational frameworks in the two

countries. The DSOs were working and charging in accordance with the original tender documents prepared by the user services; the Enterprises BU was working and charging in accordance with its own rules. The DSOs had the added constraint of reporting in legislatively defined ways, and being specifically subject to external audit on that reporting.

In addition to the differences in accounting there were differences in attitudes towards the DSOs and Enterprises. The DSOs (even all the DSOs together) were not such a large part of a council containing education and social work services, so there was no concern about them being over dominant. Each DSO worked for a limited number of customers, often managed by the same people as had been working alongside the DSO managers before CCT. Enterprises worked for everyone, and although some of the staff had pre-dated the set up, many did not. All parties were aware of the threat to the DSO services from the re-tendering process, which should have sharpened up the act for the DSO, and may have contributed to the favourable interpretation given to overheads allocations that had apparently occurred.

Purchasing rules

Interviewees from the rest of the Commercial Council found they lacked effective authority to challenge Enterprises' decisions. Comment centred on details to do with accounting, but seemed driven by resentment generated by the enforced use of Enterprises to provide any service that was within their capabilities. Under the New Zealand Commercial Council's procurement of services rules Enterprises had been operating since its inception as the first choice provider of services to all other parts of the council. That meant that any work that could be done by Enterprises had to be given to them if they wished to do it. As a result Enterprises was in a stronger position than the purchasing

departments when questions were raised over the price quoted for the service. When exasperated departments went outside the council and got lower prices quoted Enterprises would adjust their price, but even then that was not always satisfactory, as was shown in the example about the library rent in Chapter 5.

The Commercial Council had other business units that were particularly concerned that Enterprises were unfairly advantaged by the purchasing rules:

... it actually brings us into conflict with each other, we are a BU with a requirement to make a surplus, they are a BU that is required to make a surplus, but if we are compelled to use Enterprises, then they can name the price so that we don't make a surplus and they do, um, it's not a win - win situation generally (laughter) (N59-60).

There was also a problem where Enterprises were able to perform a task, but not by the preferred method. For instance they could not provide the directional drilling, trench-less technologies which benefit some operations and consequently quoted for conventional trenching. If the purchasing department obtained a price from the market for the technique they wanted they ran into trouble with the procurement rules.

The Engineering Council also had problems with their purchasing rules. One of the first things the new manager for Consultancy did was set up Performance Agreements between his staff and the asset managers. His view was that there had been no real prices put on things and that the asset managers had basically required the Consultancy to do everything they required. The Consultancy manager reckoned that the asset managers were still doing more “techie” engineering than they should, and the performance agreements would reduce this role blur and give a more businesslike approach. The asset

managers were concerned that the underlying requirement that Consultancy be given first refusal of the work negated much of the businesslike approach that the agreements were supposed to foster:

Now I've just signed a performance agreement which has taken about a year to come to fruition. That's partly my, the delay has partly been my fault, partly um, just the pressure of work and partly slowness on the part of Consultancy, but it says various nice things and it has got a quality plan and it's got this and it's got that, but I don't believe really, the proof of the pudding will be in the eating, and I don't think there's any, there's certainly no financial incentives there for them to perform. Um, and if we've got, I call it being asked to negotiate with one arm tied behind your back, if we have to deal with them anyway, we're sort of like two people forced into bed with each other, instead of wanting to jump into bed, we're sort of forced into bed, it just doesn't work (AP.45).

The performance agreements seemed to suffer from the same problems as the service level and trading agreements in that power was unevenly shared, producing little incentive for the stronger party to change behaviour or enthusiasm for prompt action from the weaker party.

However the same asset manager also explained that he did not always follow the rules and had recently given jobs to an outside contractor without offering them to Consultancy. This was not mentioned by the Consultancy manager who did point out that the requirement that his unit be given first refusal for all engineering jobs was being breached particularly by one of the other asset managers. It was obvious that the rules were being bent.

In the Commercial Council most of the interviewees who discussed the problems with purchasing rules also mentioned a report that was going to Council from the Chief Executive proposing that around 30% of Enterprises services be made contestable. That is, drop the procurement rules for those services and allow user services to employ contractors from outside the council if they wished. This had been circulated in draft form in order to allow managers to comment on how the decision should be made on which services to free, and which to retain as in-house provision, and why.

The parts of Enterprises that are made contestable would be more like the Scottish DSOs, although rather than a single fixed period contract for all works each job would be contestable. This would leave those parts of Enterprises extremely vulnerable to forces outwith their control both inside and outside the council. Parts that did not win work would wither and eventually be closed. The Chief Executive's consultation was centred on reaching a consensus on which services were too important to the council to risk losing their continued and internally controlled provision.

Accounting and IT were each nominated in interviews as being essential core services but the consultation was in its early days and every one who discussed the matter seemed to have a different viewpoint. This lack of agreement was not confined to this one council, each of the councils in both countries has made decisions on what can be contracted out and what is essential to keep in, and not much in the way of consensus has emerged.

Each officer had their own experience of services that worked or did not work provided from within and outwith councils they have worked in, and where a service has failed, the ease with which it was replaced.

Services deemed contestable would be free to seek work outside the council to maintain their workflow. Some parts of Enterprises had already been gaining income from outside. The laboratory provided for council analyses had long done commercial work which was seen as non-contentious as there was no local alternative. The IT section on the other hand had developed a training programme for the council and then sold it on elsewhere, which had caused problems with allegations that the staff involved had not been available as they should have been for council services as they had been "busy out there beavering away, earning money and not delivering to their internal customers" (E.16-17).

Although contestability would open up the legitimate possibility of moving into areas of work for outside customers, an Enterprises manager pointed out that this would eventually tread on the toes of parts of the private sector, who were the very people who had been pressuring the council to open up parts of Enterprises work to competition. And not just the private sector, Enterprises had already won a bid for a contract in another local authority area. Success in the open market might also bring the attention of the tax authorities. The small-scale outside works that were being done by Enterprises had not been taxed, although there was a feeling that they probably should have been, and although there was no concern on this point from the BU managers, its critics felt that a day of reckoning would come "I'm sure the tax man will catch up with them ..." (E.17). There was a general feeling all through the council that it was inevitable that Enterprises should and would be changing fairly soon.

Enterprises, like most of the early BUs in New Zealand, resulted from central government requirements to expose roading works to competition. The need to show that costing for roading was not being cross-subsidised meant that those accounts had to be ring-fenced from the rest of the council, and this was done through business units and LATEs, or by abandoning that area of in-house work all together and allowing the private sector to

absorb it. Although most councils grouped roading with other parts of the manual work, Enterprises is unusual in its compendium nature and proportion of the total council, and only a couple of other councils have used a similar set up. A comparison with the DSOs, which are smaller, and mostly single service, might help examine to what extent the compendium has created the frictions that obviously exist between Enterprises and its council customers.

Scottish contestable services – the DSOs

The CCT regime in Scotland was placed in suspended animation by the Scottish Executive's introduction of the Best Value regime in 1997. CCT legislation was not repealed until 2003, but councils were allowed to roll over existing contracts for a limited period while still meeting the requirement to produce separate accounts. Councils were expected to work towards making CCT redundant by instituting auditable Best Value measures. The case study councils had very different approaches to their original CCT contracts, one with quite a rigid split between the purchaser and provider, and the other a soft split. In addition to the CCT services one council was also treating printing and social work providers as profit centres, in effect non-statutory business units.

In the two years after reorganisation in Scotland a lot of the DSOs had problems in meeting the requirements to make a return on capital, and some heavy losses were recorded. The creation of 32 councils out of the previous 65 had meant that the newly appointed DSO managers inherited a collection of contracts from the various demitting authorities, often using different information and costing systems. The Scottish Executive made it very clear that DSO units were expected to sharpen up their act or expect to be disbanded and have the work contracted out. One of the managers of a DSO that had a near miss with extinction after two years trying to get the systems sorted described the

problems with the original information systems and how happy everyone was with the current systems, concluding "... our costing information is more up to date, more valid, and it allows us to make management decisions" (W.38)!

Rescue from the deficit years had involved more than improving the costing systems though, the DSO workforce was re-organised and reduced to permanent staff only, and the range of tasks that the DSO would undertake was restricted. Instead of attempting to provide all the maintenance work that council properties might need, this DSO had concentrated on the areas that provided a constant stream of work where expertise could be built up within the labour force. It had shed activities such as roofing, and these jobs were now being subcontracted to the private sector.

Although the structural requirements for CCT were relaxed the requirement for trading accounts remained. When the government changed in 1997 and Scottish devolution came in a year later with a Labour – Liberal executive in charge of Scottish local authorities it was widely expected that CCT would be repealed. By leaving the legislation but rescinding part of the regulations the Executive left themselves with a great deal of control over councils, entirely monitored through the accounting requirements. The managers who are operating within this framework, and their accountants, seem to be accepting this loosening of the structural requirements as a challenge to make the DSO organisations appear to provide Best Value. Any disappointment that the CCT requirements have not been done away with has been subsumed in the drive to make the most out the relaxed operational rules.

One of the effects of these changes on the managers of the DSOs in the case study councils seems to have been to make them reflective about the relationships of the DSO

with its customers. The maintenance DSO in the Agreement Council had a workload which was split roughly 80% and 20% between Housing and the rest of the council. Housing dealt direct with the DSO, but the remainder of the work was passed through a third part of the council acting as an agent for the various owner services of the property needing maintenance. Relationships with Housing had become excellent. The managers of the DSO and Housing were full of praise for and examples of the way the sections were working together:

It was fairly hostile when I first came here, in fact very much so... I think historically there was always a bit of head banging, so it's taken us four, four years to get to where we are, and it's made a big difference to us (W.32).

Other managers also commented on the extraordinary turn around in the situation. The DSO manager described the relationship as "partnering" (W.32), and the user service manager characterised it as "open book accounting, you know where the DLO are privy to all of our budgets" (AG.35). The only note of caution in a great deal of enthusiasm was a concern that the relationship might be progressing too fast for the local government environment. The managers were obviously happy, describing as "phenomenal" (AG.35) the change which had produced a surplus on the DSO accounts part of which had been returned to Housing to buy more service from the DSO. The DSO was also benefiting as they could see a predictable income stream, and the recycling of the money allowed them to maintain their workforce.

Relationships with the agent department that handled the remaining 20% of the business were not so good. There were two areas of agreement as to why this should be so. Firstly the wide range of buildings of differing ages spread thinly over the large geographical area of the council that were covered by this maintenance contract meant that little of the

work was standard. This combined with the long travelling distances meant that the price for small works was seen as very high. The second area of agreement about the relationship problem was alluded to by several interviewees who saw job insecurity on the part of the agent department's staff undermining any attempts to reduce the bureaucracy of their service. Several of the people most involved with the DSO had concluded that the council might be better off if the DSO withdrew from this side of operations and concentrated at what it was good at and appreciated for.

The direction that the Scottish DSOs were moving in was opposite to the direction of Enterprises and Consultancy. Where the DSOs were changing their approach away from the hard line contractual base, the managers of the New Zealand business units were developing their competitive approach in anticipation of having to face tendering from the private sector. The DSOs had originally no choice about being business units. If the councils wished to continue to provide that service in-house then it had to be by way of a competitive tender winning DSO. The DSO had been required to act in certain ways, which were being relaxed at the time of the research.

In New Zealand however the councils had chosen to use business units as a method of service delivery. The Consultancy BU could be compared to the DSOs in that it only dealt with one area of work, but was different in that it was being seen as a step towards the private sector. Whereas in Scotland the DSOs had survived the threat of being competed out of existence, and were concentrating on improving the service within the more relaxed operational regime possible under a changed government. Only Enterprises had created concerns about the size and opacity of its operations, and this can be seen as a consequence of its structure. The apparent lack of accountability caused by the use of pricing by job and reporting in total was supporting the move towards breaking up the

BU. Framing the structure of a BU in terms of money “earned” from other parts of the council raises more questions.

Surplus or profit and what shall we do with it

What to do with the money that a business unit “earns” over and above its costs can be a thorny issue. The original CCT legislation specified a target which represented a return on the capital invested by the council in the BU. On that basis the surplus can go back to the council and be treated as part of the general funds. The councillors can then decide how to use it. There are several problems associated with this process. Firstly, the question arises as to where the surplus has come from. Is the BU really being efficient or are the user departments merely being overcharged? A user department may well see the surplus being generated by overcharging their business, and therefore expect that the surplus should return to them. The BU may feel that the surplus arises as a result of expenditure forgone by them, and that it should be used to re-invest in their service. Both sides resent the councillors taking the surplus away and spending it on “pet projects” that have nothing to do with either.

Each council had a different approach, and even within councils the different BUs could be treated differently. The Engineering Council in New Zealand had avoided most of this debate by not setting a target for a surplus, but treating the Consultancy unit as if it were an overhead whose costs had to be recovered from the asset managers. This may have been because of practical considerations, as the IT system had previously not been capable of costing individual jobs. Although established as a business unit Consultancy had no target return to make, it had merely to recover its costs from the other departments of the council. Any under-recovery or over-recovery was re-distributed amongst the user departments. This meant that where there had been an under-recovery all the activities

that had used Consultancy, mostly those that the asset managers were responsible for, ended up over-spent, as they had been spending their budgets on the basis of the prices they had been charged by Consultancy, and then found that there was an additional charge.

Conversely, the Consultancy manager complained that there was a lack of incentive to make efficiencies or economies, as his profit or loss was apportioned back over the jobs. He would have liked any profit available for longer term planning, buying big ticket items (he mentioned a theodolite) or at least ring-fenced. This treatment of the profit or loss made by Consultancy places it in BU Category I of the Arrangements for Service Delivery Scale (Table 8) the closest category to ordinary provision by the council, and furthest away from contracting out.

One of the asset managers felt that the way under and over recoveries were treated compromised the designation of the Consultancy as a Business Unit:

... our Consultancy is not even a, it hasn't even got it's own set of accounts really, or it's not even, it's not a business unit as such, it's ... Well I know it isn't, (a business unit) in the sense that if it makes a loss it's loss is spread against the principal, the council's principal activities which is engineering you see, and that's partly my, still my gripe at the moment. I'm maintaining that any loss should be, if it is to be covered, it should come from the general rate and flagged as a, flagged as a loss or as a profit, see, profit could be returned to general rates ... (AP.35/39).

This asset manager is describing a BU in category II. He clearly felt that BU Category I did not really qualify as a BU because of its accounting, no matter what the structure or nomenclature used.

In the Agreement Council a second DSO had just softened the CCT split, and was looking forward to being able to see the benefits of that in retained surpluses. Instead of having two sides to the service; the client (purchaser) and the DSO (provider), the re-integration had allowed the slimmed down DSO to manage the budgets on behalf of the client. Surpluses could now be used to purchase additional work, as was happening with Maintenance and Housing, or invested in the DSO equipment or staff to increase its efficiency. Where does this place the DSOs of the Agreement Council on Table 8? The DSO is still required to be accounted for separately, but the service management has been combined, and can now choose how to use any surplus generated. This seems to place them in category IV, further towards the commercial end of the scale, even though the commercial split between purchaser and provider has been softened.

In the Imposed Council progress on changing the CCT regime was slower and the DSO reserves built up from saved surpluses had been raided by the council. This caused a great deal of resentment from both the service provider and purchaser, who when asked about money given back to the general funds from the DSOs said:

they didn't give it, it was taken. That's an exact example. Those are reserves that the DSO has made through its own efforts, um, and if you like if this was a conventional trading environment then the DSO would be allowed to retain all or part of those to reinvest in the service. If this was a company then obviously you can take some of that as retained profit, but presumably you would allow the service to reinvest some of that, and that again comes back to the, this, the non-sustainable financial position we are in. You know effectively those services are being used by the council as a cash cow. That money has been taken away to go elsewhere, so the service is left with facilities and centres that are literally falling apart. The other

side we have got a similar position, er the manager can't afford now to buy new er vehicles. He has got a fund there which he would argue, and indeed is arguing for a vehicle replacement fund, but he is having to argue that point in a climate where the money is being taken to massage the council's budget elsewhere (AY.157-160).

Both Councils are in the process of re-integrating the CCT split, but there is a big difference between the positive attitude of the interviewees from the Agreement Council and the angry commentary above from the Imposed Council. The main instrumental difference between these two councils concerns the treatment of the surplus of charges over costs, and the managers arguing for their service are seeking a clearer division from the council.

The notion that “all they are doing is robbing Peter to pay Paul” (AA.141) is described from New Zealand by a financial manager who had become completely disenchanted with the idea of BUs for contestable services:

... this was sort of the thing of doing business with yourself you really don't know where it ends. OK? It's the council's building, it's the council's library and it's a cost, an allocation system, a cost allocation system if you like, but shown as being an income to the property business unit, and what would happen if the council charged 10% less rental? Nothing would happen, the libraries costs would be 10% lower, to the extent of 10% lower rentals, the business unit would have 10% less internal income. When we report to the outside we eliminate both of these legs of the transaction and that's it. So nothing's really happened. Now the point of these charges should be that we make decisions in a different way than we did before, or we have greater transparency, but in fact it took a lot of explaining in front of the council until at the end they said Ah-ha, it's just fake money or it's just Mickey

Mouse accounting and I sort of said well... (laughter) I'm not sure what my answer was, but something along the lines of "Well, Yes" (E2.42).

The implications from this description are that the councillors did not originally understand how Bus worked, and that the units under discussion have not changed the way decisions are being made or achieved greater transparency. Neither of these aims was mentioned as official reasons for BUs.

Surplus / profit is part of the accounting that is at the heart of BUs. All the contestable BUs were set up with ring fenced accounts, in the same way as they would have been if they were a legally separate part of their council. As shall be seen in the next chapter, one of the main reasons given for the creation of a BU is to make that part of the council more businesslike in the belief that businesses are more efficient. The creation of a "profit" by BUs is part of this, but as discussed above, creates a raft of questions about what this profit is, where it came from, where it should go, and whether it actually exists at all.

Services with Separate Revenue Streams

The only services with a separate revenue stream in Scotland that have been constituted as BUs are Leisure DSOs. Neither of the Scottish case studies had a significant Leisure DSO. Although council housing could be described as organised in business units, it was not expected to remain so in either case study as housing in Scotland is being encouraged to leave local authority ownership and become part of the not-for-profit sector. New Zealand local government provided more of the income producing utilities: in 1989 councils provided water and drainage, electricity and gas, some housing and some public transport. The State owned utilities had been corporatised and mostly privatised in the eighties and early nineties following a pattern of gradual transfer. Local authorities were

required to cease conducting passenger transport operations from 1991, and corporatise power operations in 1993. There was no requirement to privatise any council services. This section considers the establishment of BUs and corporatisation of these revenue producing services, what was done, and perceptions of why it was done.

New Zealand local authorities that had bus, gas and electricity services (only the larger towns and cities did), could benefit financially from the creation of a separate asset. If the LATE was sold the council got a capital receipt. If the LATE was held the council revenues received dividends. Whether the dividends amounted to more than the surplus of income over expenditure that the service would have contributed when part of the council, or if the sale price adequately reflected the value of the service to the council, is another matter. The Commercial Council had originally provided all three services, and although the bus company was simply closed both gas and electricity were formed firstly into business units and then created and run as LATEs. The gas company was subsequently sold, and the sale price used to clear council debt and fund large capital items. The electricity LATE was merged with another power company in a share exchange, and the council still held those shares.

The electricity and gas services had clearly identifiable revenue streams, and their accounts were supposed to show the real cost or benefit to the council. It seemed however that the old gas and electricity accounts were not properly separated, and that until their move into business units the accounts were not really ring-fenced "the energy forms were subsidising each other" (E.47). Apart from this perception that the old accounts did not show the cost or benefit of each service to the council, cross-subsidisation is an uncomfortable accounting practice: the financial manager quoted didn't approve, and I can remember that my initial reaction was to feel the same way.

The implication was that these accounts were unclear, messy and not right. The impression given was that the cross-subsidisation was unprofessionally confused rather than deliberate. This financial manager approved of the creation of BUs for the power services because it sorted out the accounting.

Although there was a general permission to create LATEs for local government services, (with the exception of regulatory activities) there was no requirement to do so apart from for public transport and power. There was central government enthusiasm for the private sector though:

Local authorities are encouraged to corporatise or privatise their trading activities (aside from airports, seaports and energy supply operations which are covered by separate legislation). The act requires territorial authorities to corporatise or establish as a business unit any of their operations carrying out subsidised road construction work and corporatise any public transport undertaking. Local authorities are required to consider putting out the delivery of all services to competitive tender (Statistics New Zealand 1996, p51).

The encouragement was simply that: speeches and pronouncements. New Zealand central government did not have the lever of funding to help persuade local government to consider privatisation in the same way that the Scottish executive did. Nevertheless, several interviewees expressed the thought that government would eventually force water services into the private sector, and there was a White Paper produced for roads in 1998 which suggested that most of the roading service would be put into the hands of several large companies created for that task and be funded by the road licence fees. It seemed inevitable to some that these infrastructural assets would be forced to become corporatised one way or another, and business units were seen as a step in that direction,

although LATEs were still seen by many as associated with privatisation and a step too far. In particular the sale of the council's infrastructure assets was seen to challenge the continued existence of the council.

Although there was this unease about going as far as corporatisation, the climate at that time was conducive to the creation of business units for the infrastructure asset services on the basis that they had, or could have dedicated revenue streams.

In the Commercial Council the Water, Waste Water (sewerage) and Storm Water services were made into the Water BU in July 1998. The Water service had three specific features that might have encouraged the council to consider it as a BU:

- In 1998 eleven other New Zealand councils were using BUs for their Water services, two had franchises in place and one was using a LATE. Half of the territorial councils with a population of over 46,000 (the largest 20 councils) had water supplied in one of these ways. Water had become a service which was normal for large councils to organise as a business unit;
- there was going to be a need for large capital investments, particularly for waste water to allow it to comply with environmental and Iwi¹⁷ expectations. Funding these might be politically more difficult from an increase in rates than from an increase in water charges. Operating as a BU means the full costs would fall on the water consumers, and it was assumed that this transparency would be politically more acceptable;

¹⁷ All of this council's waste water currently goes into rivers. It is offensive to Maori culture to foul rivers. In compliance with and in the spirit of the Treaty of Waitangi the council has a formal consultancy arrangement with representatives of the local tribes – Iwi. The alternative waste water treatment being proposed is expensive.

- with the consideration of water meter installation and the use of an annual charge identified as a water charge more of the council's revenue could be identified as belonging to water, so a BU could have an identifiable income stream.

Why had the Commercial Council not previously used water rates? The answer seems to be a combination of geology and history. It is extremely easy and cheap to supply water in the area, which sits on a large natural aquifer. It also rarely suffers from drought. As a result water costs are low, especially as a proportion of the total council costs. Water supply was seen as a normal function of the council from its early days in the 1890s, and as the population grew reticulation was extended to new properties (Commercial Council, 1996). At reorganisation in 1989 two rural areas were added which introduced a significant number of properties with no publicly provided service. But as long as water costs continued to be relatively low there was no public demand for the charges to be targeted solely on those receiving the service. However, works since the early 90s on maintaining the system and the new proposals for waste water disposal were and would continue to lead to high capital charges and running costs. These were falling on the general rates and producing unrest in the un-serviced rural population, who could not see why they should pay for a service they did not receive. Any adjustment to the rates to reduce the charge to the un-serviced electorate would increase the rates for the rest of the area, a difficult thing to do when water costs were rising steeply.

The creation of the Water BU had eased the introduction of specific water charges, which were seen to be more politically acceptable in this framework. General rates would go down for everyone and only water users would pay water charges. The creation of a BU distanced councillors from rising charges for users. The higher charges arose both as a result of only charging the users (no more "subsidy" from the rural ratepayers with no

connections) and the loan charges and other revenue consequences of the needed capital expenditure.

The Engineering Council already had separate revenue streams for all parts of the service and was not considering placing its water services in a BU. Much of the infrastructure is more recent, and the need for investment relates to relatively small schemes bringing these services to properties for the first time. Not all properties have council provided water, sewerage or storm drainage services, and only those that do are charged. The very fact that it already had a clearly separate revenue stream raised only from the service recipients means that that justification for a BU is invalid for this council. The separation out of costs and income from the general rates which the creation of the BU achieved in the Commercial Council was already in place here. The introduction of the Water BU can be seen essentially as a mechanism to create political acceptance of a hypothecated revenue stream in a council which had not previously had differentiated water rates.¹⁸

¹⁸ In Scotland water and drainage services were funded by a water and a sewerage rate, later water and sewerage community charge and then finally council tax applied to those properties that benefited from those services. The accounts were ring-fenced and water reserves and debt were maintained separately from the council general fund. The Water Services could have been described as a BU. At re-organisation in 1996 the assets, the reserves and the debt were all transferred to public bodies appointed by the Scottish Office. The Scottish water services had been paid for by the users of those services, before and after transfer of control and ownership from council to quango. Like their New Zealand counterparts the water service is facing high investment demands, and attempting to fund these in part by finding efficiencies.

The Scottish Councils had water taken from them, and so complaints about rising charges were re-directed to the water authorities. The New Zealand council had created a Water BU to allow officers to claim accounting rules insisted on raising water charges to meet rising costs, and allow the councillors to claim *force majeure* when dealing with complaints about the water charges. The difference was that the New Zealand council still owned the value of the service, and could choose to corporatise it or sell it, realising that value for the community, or keep it and the stream of future income it would produce. The assets of New Zealand councils belong to the ratepaying community that paid for them, it would seem the assets of Scottish councils belong to the central government which has grant aided their acquisition over the years.

Public Goods

The last of the categories used for business units was called 'public goods' by a number of the interviewees to denote those areas of service that they did not think really fitted into the other business unit categories, having neither a revenue stream nor an obvious commercial provider. The BU that is being used as an example to discuss this category is a very uneasy fit, as it comprises two distinct areas, but this was the unit that provoked most comment on the suitability of the BU structure for public goods.

Customer Centre

The Customer Centre (CC) started in the Commercial Council in New Zealand in 1998 providing telephone, reception, receipting and front line assistance to the public for all areas of council work. All visitors and phone calls had to pass through the CC, which was located on the ground floor of the council building in the centre of the downtown area. The CC was set up to answer 80% of all enquiries without escalating the caller to the department concerned. To assist with this CC installed a new telephone system and a new computerised database. Other departments had to keep the information in the database up to date and provide a back up service for the remaining 20% of enquiries.

As well as the front of house services done by the CC, it also included the Regulatory Services, such as building control and planning control. These have a high number of customer contacts, and so it may have seemed logical to add the customer contact work to this section. This hybrid of service provision to other parts of the council and direct service to the public confused the picture for many of the interviewees. The front of house services could be seen as an extension of Enterprises work, indeed Enterprises made an unsuccessful play to provide the service. This was rejected by the council management, possibly because there were already concerns that Enterprises was too large.

The CC is funded by a combination of fees for regulatory work paid by the public and charges to the other parts of the council through SLAs for the front of house work, so there is a partial external revenue stream and a partial form of overhead charging. The creation of CC as a BU could be viewed as an extension of the services that are considered contestable. But the regulatory functions of a council cannot be put into a LATE (Local Government Amendment (No. 2) Act 1989, S594e). They can however be partially privatised: for instance New Zealand has independent building control officers. However the regulatory work is seen as a Public Good service, and there seemed to be a general concern in the council that that type of work does not fit in a BU.

Paying for CC

Several of the interviewees were critical of the charge to their service for the CC facility. Service level agreements were being set up, including charges, with the original drafts for agreement coming from the service providers. As was seen in Chapter 5 and for Enterprises service providers usually initiate service agreements. The charges to the rest of the organisation for CC were criticised for not being based on anything external:

And it's going to charge the rest of the organisation for its services, and what does it do? It answers your phone call about the dead cat on the street or about your rates bill or whatever, and somehow it has to charge the rest of the council on an arms length basis for its services as if it were a separate company and as if there were a commercial rate available for that (E.40).

Prices for Enterprises jobs had been set for the last nine years by comparison with the private sector, at least in theory, and this speaker is looking for something similar from CC as a BU. The assumption being made is that the front of house part of CC is contestable. The main proponent of CC felt that the costs should be comparable to prices

from call centres, but the accountants involved with setting up CC had not been able to get any comparative information from the private sector.

Perhaps as a result the charging basis was determined on a calculation of the costs of CC and the amount of savings that could be identified in each department as a result of CC taking over the front of house services. There seems to have been an attempt at fudging the total costs of the CC to start with, as there were several different approaches to finding the funds to get the CC going. All services were asked to find their contribution from savings arising from the services they would no longer have to supply themselves, e.g. receptionist salaries. However, the charges being made were considerably more than people considered they would save, and eventually it was accepted that in the first year at least there would have to be cuts in the other services to pay for the CC. This was said to be due to start up costs for the re-location of staff and set up and installation of the telephone and computerised information system that was to underpin the CC.

Reasons for establishing CC

The idea for CC was reported as coming from senior management in the council who were concerned that the council's annual survey among the public was revealing a slow but continuing drop in customer satisfaction with their contacts with the council. There was a common feeling that members of the public were getting poor service, "wandering around" the building and being sent to several places, and that the telephone service was poor. The examples that were given and the expressions used to describe the problems were the same from each interviewee. This may be a reflection of how recently the issue had been discussed, and or evidence that the chief executive's reasons for establishing the unit were well promulgated.

When asked what had prompted the formation of CC one member of the management team listed a number of issues that had been discussed: empty space on the ground floor of the building that had been criticised as a waste of resources, the need to improve customer service, and successful similar set ups that had been seen by the chief executive and other members of the management team in a couple of other councils. None of these arguments for the CC were predicated on it being a BU, indeed more than one person felt it was unnecessary to achieve a businesslike approach as this quote from another member of the management team shows:

Why go through the mechanics of setting up because if you know that these things cannot be contested and are therefore a corporate good all you do is bring in that businesslike attitude about it and not be flamboyant in anything, it doesn't require a physical structure to make you do it (M.123).

The chief executive on the other hand, although mentioning the reasons listed, also saw the setting up of the CC as a BU as the way to capture the efficiency savings for the benefit of the council rather than have them lost in the departments for whom the service was to be provided:

The reasons I did that, and I know it has attracted some scepticism from other people, some of whom you possibly may have talked to, was to ensure that the efficiencies were er driven er down into the rest of the organisation, I was fearful that if we created a customer centre in terms of it's client interface, sorry customer interface, that would create a lot of savings for the people behind, er, backstage if you like, who would then say oh great, suddenly all these resources freed up, now we can do this and that and all these other things, um so by having a transfer of charge for them it means that the benefits get passed back to the customer service centre, because they are paying for it, and then we've got a choice as to what we can

do with the um, the [savings] that are generated. So that was the sort of if you like the base and theory behind it, I wasn't, I was unhappy that if I didn't have some sort of business framework it could just end up that the saving that we were making would just disappear into the ether, erm and not being able to be tracked or controlled. It was primarily a pragmatic decision by me ... (P.9/12).

The only other interviewee who mentioned capturing efficiencies was the manager of the CC. This reason for establishing the CC as a BU pre-determines that there will be surpluses made from efficiency savings, and what will be done with them. This can be seen as a determination to provide the councillors with additional discretionary funds to assist with the problems that had recently been highlighted by the LTFR. (This is discussed in detail in Chapter 8.) It can also be seen as a lack of trust that the other managers would put the good of the council above a benefit to their own services, or at the least, some cynicism that this would happen.

Within the council in general the creation of the CC was seen as being problematic. The only one of the interviewees who seemed to have unalloyed enthusiasm for it was its manager. The concerns that were mentioned were to do with the nature of the activities to be included, the way the cost of the front of house parts of CC were to be allotted around the council's significant activities and with the structuring of the CC as a business unit.

The council staff felt that a BU was appropriate where there was a service to the public that had a separate charge, or could be contestable and/or might later become a LATE, and that where a service was a public good with no particular income, no competitors and no legal possibility of becoming a LATE a BU was not appropriate. Looking at the features of the combined Customer and Regulatory Services Unit it is no wonder that CC was seen as problematic!

| | Side of CC | |
|---------------------|--|------------------------------------|
| | Customer Services | Regulatory |
| Type of provision? | Service to Public | Public Good |
| Revenue Stream? | None – recharge to other activities of council on SLAs | Yes - fees paid by public |
| Contestable? | No equivalent providers identified at present | At least some equivalent providers |
| Could it be a LATE? | Yes | No |

Table 9 Elements of Customer Centre BU

For the manager of CC this led to the idea that the business unit is a variable concept:

...where you sit on that continuum may be determined by um what is your funding.

In other words if you have an activity that has a direct user charge, um, it's more likely that you'll be at the um, um, more closer to the public sector BU almost, whereas if you are largely funded by public good, er or your activity is largely public good it's more likely that your business unit will be closer to the traditional in-house department (H.99).

It was this discussion in particular that started the train of thought that ended up with Table 8. However, this individual is the person tasked with managing the BU encompassing both of these parts of the continuum. It would seem that even CC's manager can see the structural problems caused by combining public good services with separate revenue stream services. From the accounting point of view the BU combines an overhead service with a fee-charging service to the public. This was not unusual for

traditional departments; Administration departments often combined committee servicing with issuing liquor licences to the public, the link between the two being an understanding of the relevant law. The accounting for this would have involved splitting the costs between the various parts of the unit and dealing with them accordingly. It would seem that the move away from provider led structures towards customer led structures has led to a similar hybrid unit. The creation of CC as a BU complicates the accounting picture. Any measurements of success of the BU that use accounting figures, for instance return on assets employed or profit as a proportion of turnover, would be very difficult to interpret.¹⁹

This chapter has used the case study commentary to categorise BUs into three types: Contestable Services, Services with Separate Revenue Streams and Public Goods. Each is exemplified by a BU in the Commercial Council: Enterprises, Water, and CC. The three categories provide different services to different customers and have different financial goals. What they share is a definition in accounting terms, as is explained in the next chapter, which also examines what interviewees regarded BU are intended to achieve, before drawing conclusions about how this organisational form in the case study councils assists in answering the three key questions.

¹⁹ From the information given on the questionnaires there appears to be only one other council with a BU providing customer services and none providing regulatory services.

Chapter 7 Business Units - Concepts

The previous chapter describes actual Business Units in the terms that were used by the interviewees, and a viewing of the national pictures as far as can be gleaned from the questionnaires through the same lens. In this chapter concepts about business units are abstracted from the interviews and contrasted with the interviewee's perceived reality. The reasons proffered to explain why business units are used as a means of service delivery and the influence of the accounting profession are identified. The perceived results of BU use, including an inherent instability of the organisational form are explored. The chapter concludes by considering how business units have contributed to the Key Questions.

Defining Business Units

The BUs under consideration can be described as parts of a council that have no budget of their own voted from council funds but which have to earn it from other parts of the council or from customers. This was not a definition proffered by any of the interviewees, who had a lot of problems describing the BU format. There were however some areas about BUs that everybody interviewed agreed upon:

- The BU's accounts have to be run as a profit centre, including "full" costs and income producing a "commercial or quasi-commercial set of accounts"(P.71).
- The accounts of the BU have to be ring fenced in order to account for it as a profit centre.

- The provision of a service in a BU requires there to be a purchaser elsewhere in the council. Even though this had not been fully developed in all cases, for instance the Water BU, there seemed to be agreement that it was essential.

There were several elements that different individuals thought would be essential for a BU to be effective, but that were ignored by other people or patently unachievable for a particular BU. These included an insistence that purchasers should be good at their job and that a BU should have

- separate revenue streams;
- performance measures that include a return on capital employed and profit targets;
- that capital expenditure, asset valuation and debt should be identified and ring fenced;
- and that BUs should have separate governance from the rest of the council.

Business units need - excellence in purchasing

Almost all the interviewees who discussed purchasing insisted that councils had to have excellent people to do this job. The exception was being honest about his experience saying "It's proven difficult in practice..."(AP.43). Managers gave several examples of the problems they had encountered as a result of poor specifications, and what had been learnt from them:

What it demanded of councils was whereas before it was in-house, just went and did it, people did a good job, hopefully, now we are on a tender basis we found that we said mow the grass at the side of the road and what we found was the guys were getting the tractors to do 50 kilometres an hour and cutting the grass about this high off the ground, about 18 inches off the ground. We said well, we will go back to the tender document, you will cut it within three inches of the ground. In the old

days you didn't need to do that because it was all done in-house you see, cutting the lawn was cutting the lawn (AO.109).

Grass cutting seems to have been a hazard prone area of specification. One of the Scottish councils found that the DSO employees who cut the grass in the cemetery had exceeded their job description by gathering all the arisings (clippings) rather than leave them where they fell. When the DSO manager quizzed them about this, the response was that although they knew what the specification was they thought it was not right and proper, and that the cemetery grass should be mowed to a higher standard than the playing fields. Subsequently the specification was changed by agreement between the two parties to reflect the employees' sensibilities.

Exactly the same thing had happened in a cemetery in the New Zealand Commercial Council where grass cutting specified leaving the clippings on the ground. The mowing squad felt this was wrong and picked them up anyway until they were caught by Enterprises management, who told them not to. The public complained and blamed Enterprises, rather than the specifying unit, and eventually the specification was changed. Enterprises management said they would now encourage their job co-ordinator to quote as specified but also state in the quote that they felt it should be done in a particular way, and give a price for that as well.

One of the Chief Executives emphasised that the choice of provider depended on more than just price, and purchasers should also be looking at track record and experience. If the choice proved to be wrong the responsibility lay with the purchaser: "no point in harping and whining about the BU or anyone else" (P.43). The managers who were not closely involved in commissioning were all very enthusiastic about the need for

excellence in purchasing. This included the new Chief Executive at another council who was reported as wanting good commissioning people who also understood the "state of the contracting market" (E.137).

But the consensus from the BU managers (perhaps not surprisingly) was that the commissioners were not up to it, and that where services had been split into purchasers and providers, the BUs had got the higher quality staff. There was an overall impression that the quality of purchasing was variable, given in the main by interviewees who specified that excellent quality purchasing was necessary to achieve the benefits of organising services into BUs. The raising of this topic can be interpreted as blame passing by advocates of BUs and BU managers: the idea and the operation of the BU is fine, the problem lies with the commissioners in the remainder of the council. An alternative view could be that if before BUs "cutting the lawn was cutting the lawn" then without BUs there would be no need for excellent specifications and clever purchasing.

Business units need - separate revenue streams

One senior financial manager considered that BUs were only appropriate where there was a revenue stream specific to the service. As seen earlier this only applies to some BUs, Enterprises does not have a separate revenue stream for instance, neither do the DSOs nor the Customer Centre part of Regulatory and Customer Services.

... we've had lots of discussions in the council, just last year a group of us working on the BUs, in terms of what is a BU, really is the library a BU, well not really, the thing that would separate it from other activities of the council was if it had a separate identified revenue stream, that was related to that particular activity, so if we charge rates to the public ..., and don't specifically charge them for water, for

street lighting, for the library, then it's really a judgmental, administrative, political decision making that determines what we end up with (E.200-201).

This argument suggests that only non-rate funded services are better as BUs. Does this imply that there is something inherently commercial about services for which the user pays a charge? If, as the speaker says, any rate funded service is always going to have its priorities decided by the councillors, the implication is that the users can control and make more efficient those services they pay for, which seems unsupported by practice. He suggests that rate funded activities can be made more efficient without the paraphernalia of creating BUs within the council:

Doesn't mean to say we cannot be efficient, we can't benchmark, we can't um be efficient in our own way by constantly searching to get best practice in managing costs and so forth, but it's not a BU, the library's not a BU, nor is the Customer Centre in my view, those sort of things should be in Council's annual report on the activities (E.200-201).

This accountant is seeing BUs as defined by their finances: BUs are only appropriate where there are separate revenue streams, and also they are not visible in the Council's published accounts. This was the case with Enterprises, and this is possibly an example of the specific driving the general: the Enterprises BU didn't account as an entity, so BUs don't account as entities, so areas of activity which this individual feels should appear and be accounted for in the annual report should not be BUs.

Business units need - performance measures – return on capital

In the Commercial Council the Water BU has a high asset value, and if it were a private business there would probably be a performance target of profit as a percentage of assets employed. But in fact the council does not do this but uses a straight profit figure after

loan and depreciation charges have been met. Enterprises has a relatively low asset value, as much of its turnover is attributable to skilled manpower. So return on assets employed makes almost no sense, not least because the proportion of asset-rich to asset-poor work can vary or be manipulated. But the council does use a return on assets employed performance measure for Enterprises. When Enterprises was set up in the early 1990s a lot of the jargon had been imported from the UK where the DSOs were all set up with a targeted return on capital. When asked about their performance yardstick the management team of Enterprises were ambivalent, those most concerned with the asset-poor services were happy with the idea of a target as a percentage of turnover, but the overall feeling was that it was working fine.

Business units need - performance measures – profit targets

As was discovered in the last chapter although some people thought that profit targets were an essential ingredient of acting in a businesslike manner, others thought making a profit meant that the BU was “ripping off” the other parts of the council which it was serving and a number of managers were really uncomfortable about the concept of a profit. There was a common concern with a potential for conflict between profit seeking behaviour and quality service:

when you call something a BU you always denote the profit, that is your strive, you want to maximise your profit. ... if you are striving for rate of return and you also strive for good, perfect customer service there is a conflict there, one has to give way. (B.36-37).

Both Water and the Customer Centre (CC) had break even targets initially, but in both cases the managers were of the opinion that targets would and probably should rise. The issues raised earlier about surpluses being called profits, and what is done with them illustrates the problem with having profit targets as a feature of BUs. The adolescent

LATE view of BUs sees profits as a necessity. As a company a LATE is judged by commercial standards and has to make a profit and/or add value to the owner's investment to be successful. However enforcing commercial standards on a BU which is still part of the council can lead to some rather surreal financial outcomes. The BU managers, operating in a profit seeking environment, saw the evidencing of profit as evidence of success:

But it's led to absurd, almost bizarre um results in Enterprises, Enterprises declaring a profit and a dividend. And even, sort of, the, total madness the manager, the general manager of Enterprises wanting to present the chairperson of the finance committee with a cheque. A cheque for the profit made by Enterprises, which would mean that the council would draw a cheque on itself, keep it out of circulation for about four days, the bank would be laughing, and then put it back into its own account (E.193).

This anecdote from a finance manager illustrates the different viewpoints held in these nested institutions. The manager of the BU only sees the operation of the council from the standpoint of the BU: if the BU makes a profit the council benefits and should be made aware of that. The financial manager sees the council's finances as a whole: the "profit" comes from other section's budgets, and the gesture with the cheque actually costs the council money while the cheque clears with the bank.

Business units need - identified and ring-fenced assets and debts

In Scotland the regulatory requirements meant that the value of the assets associated with a service had to be identified in order to show that the return on capital had met the government's minimum rate. Councils found that by reducing the amount of capital employed in a service the target amount became smaller, so they started to use accounting devices which would provide the use of assets without the ownership, for instance the

widespread leasing of wheelybins. By the time the school meals service was put up for tender this idea had been refined so that the contracts did not include any ownership of assets, the premises and equipment remaining in the ownership of the schools, and any other equipment obtained on operating leases.

New Zealand business units had their capital assets and liabilities ring fenced. This happened to Enterprises long enough ago for everyone to have forgotten about the figures, and no comment was made. But the Water BU was only six months old and the calculation of Water's capital debt had been a subject of concern. Establishing what part of a Council's debt relates to what service becomes complicated if there are significant receipts that are applied to reduce council wide debt. At the time that income is received there is rarely discussion of whether it is to be applied as a percentage of each asset debt, which may in itself not be related to the asset value depending on date of acquisition or gift. The figure that was taken for Water debt was suggested by management, who had a consultant from a firm of accountants assisting, and had the merit of appearing to be reasonable in comparison to the asset value of the service and also meant that the Water charges for the following year would not be significantly higher than those for the previous year.²⁰ In a direct import of commercial accounting language one manager (not an accountant) justified the decision using the expressions "gearing" and "equity" to denote the part of a service's assets that are not debt funded:

²⁰ The law required New Zealand councils to provide fully in their budgets for depreciation on capital assets from 1 July 1998. Where this was equal to maintenance budgets the net effect on rates was nil, as the cash raised for depreciation could be used for upkeep of assets. In the case of Water in the Commercial Council the previous maintenance budget had been higher than the calculated depreciation, and applying the depreciation figure (as was agreed for the council in general) would have meant that Water charges would be more than needed, which was contrary to council policy. So it was agreed that the excess would be used as the base to calculate the Water debt that would transfer to the new BU, which would mean that charges could remain the same over the transition to BU.

It's really hard, I mean at the end of the day we took a pretty pragmatic decision and we decided to lightly gear it you know, I think it is something like 90% equity and 10% debt, I mean that's, that's pretty friendly, in one sense, particularly when you are saying you are going to have a zero return on the equity, I mean... (P.87).

Another manager's comment reflected the way he felt the decision had been somewhat arbitrary:

So um, I think the consultant at the time had identified that we really should have debt to, to be doing things in a businesslike manner, we didn't necessarily see it that way ourselves but felt that this was the best advice and, um, what the hey, what difference does it make, if we take the debt and give it to Water then we put up our uniform annual (water) charges and the council's general rates go down, overall it doesn't matter (N.234).

The accountants involved had obviously been rattled but accepted that this was an area where their profession provided no single right answer. One accountant managed to implicitly criticise the decision by suggesting that:

... if we document them [the reasons for the decision] and three years down the track we might find that we should have opted the other one then we will be wiser when we do the next decision At the moment I'm still (gestures)... (B.73).

The issue had arisen because of the belief (supported by the consultant) that BU accounts have to mimic commercial accounts, and have their own balance sheet. The problem is that unlike commercial entities or public sector entities BUs are only part of councils. Council loan debt is related to the borrowing needs of the whole organisation, and the rate of interest payable on that debt is related to the credit rating of the whole organisation.

Business units need - separate governance

In the New Zealand Commercial Council several people suggested that each BU should have some form of governance separate from the management of the BU and the normal council hierarchy. At the time of the interviews only one BU had a board, and work was being done on what form of board would be desirable for all the BUs. In one of the Scottish case studies the DSOs reported to the council committee that had responsibility for the service they predominantly worked for, although in most other parts of Scotland separate committees had been set up to look after the interests of the DSOs.

In the Engineering Council the BU manager reported directly to the Chief Executive, and indeed, in the early days of Enterprises, the same thing had applied. Gradually Enterprise's governance was moving away from the Enterprise managers, firstly by establishing a board including other members of the council's management team, and then by adding two councillors. It was expected that the next step would be to drop the staff other than the Chief Executive and add business people from outside the council. Two changes were in progress; a move from officer control to councillor control and a move to introduce non-council non-executives. The changes were happening at a time that governance issues in general were becoming more prominent but there was no reference made to any form of ideal or proper way which would suggest normative isomorphism. The first of these changes reflects a change in perception about the role of the BU. Instead of being an administrative matter that can be delegated wholly to officers the BU has become a political matter that requires councillor input. Enterprises has moved from being a way of providing routine services in a businesslike manner to being a part of the council that requires political decision making, in part because of its size and perceived lack of accountability. Having the politicians involved does not of itself give

more accountability if commercial confidentiality is being invoked, but it allows the councillors to have a say in the decision-making process.

The second change, introducing non-council non-executives, reinforces another perception of the BU, that of a commercial entity. It also emphasises the separateness of the BU from the other parts of the council. One councillor was not happy with what he saw as a possible loss of democratic control, and had got the Chief executive to agree to sort things out. The councillor was looking for continued accountability of BUs to the council, but it seemed unclear from his interview what it is that the Chief Executive had agreed to, and other interviewees in the council remained of the belief that the board would be private sector members with a minority of councillors. The Chief Executive said, in a heartfelt manner:

Can't get away from councillors, um, the what I'm going to be suggesting is a board of probably five, [with] two councillors, and three outside persons. There seems to be, from the discussions that I've had with various councils a degree of acceptance about that (P.31).

This seems a good example of DiMaggio & Powell's mimetic isomorphism (1983, p151), importing structures approved elsewhere in a situation of uncertainty. The Chief Executive's three/two split seems to have been arrived at in order to balance his desire to have private sector expertise with the pragmatic necessity of keeping some councillors. The similarity with other council's board structures is a justifying mimetic isomorphism providing legitimacy to convince the council. Bringing in the private sector would make the board look more businesslike; it would also look more like a LATE board, and could consider the needs of the BU first rather than those of the council in general. Where the BU might be threatened by contestability this would enable the BU to concentrate on its survival, possibly by looking outside the council for work. Given the original stated

intention of the council management to create Enterprises as a shield against privatisation pressures the development of the BU board can be interpreted as more defence work, pushing the BU further along the spectrum towards the private sector without going so far as establishing a LATE.

What individuals described as essential elements for a BU varied from person to person, and within individual interviews, depending which BU they were considering. Where the BU was to provide services to other parts of the council there was a need for good purchasing skills, separate governance and performance measures. Where the service was directly to the public the view was different, specifying a clearly separate revenue stream, and a profit target.

What BUs Are Intended For

The last section examined which conditions and structures the interviewees thought were essential for a service to be a business unit. This section considers what people said operating as a business unit will achieve, starting with the perceived good points of making the service businesslike and changing the attitude of staff. Having promoted more businesslike behaviour BUs should be generating savings. BU accounting could then be used to direct the savings to desired ends.

Get the service to be businesslike

Businesslike was the most common word used in association with business units in New Zealand. (In Scotland, although interviewees frequently referred to the business of the council, or the business of their service, there was only one use of the word businesslike and that was in the context of a DSO.) To different people it meant acting in various ways in different contexts. One of the BU managers saw it as challenging prices received

from outside the council because his performance was dependant on the ability to purchase quality at competitive prices. Another saw businesslike behaviour as producing challengeable prices for internal services that could be compared with alternative suppliers, stating that the BU had been created " with the objective of creating some imperatives to bench mark against the private sector" (I.28). One of the accountants saw it as reducing staff costs "if you really want to be blunt about it, that less people do the work" (L.22). Another BU manager simply saw the separation of service delivery from policy and asset management as a more businesslike approach to the running of the organisation.

And the result of being businesslike would be that the council could demonstrate it was acting properly:

Oh, oh I guess that was one that came from the Chief Executive in particular but this had been a pervasive thing that er, you kind of have to er, where you have to be more businesslike to be, er credible as a local, as a local authority ... (E.42).

This is another example of BUs being an example of mimetic isomorphism, although here it is perhaps closer to justifying normative: the adoption of a businesslike framework, although not specified by any professional body, could be described as environmentally normative in a country where economic terminology was becoming common parlance (Larner, 1997, p12).

Most people were not wholly convinced of the need to set up services as BUs to be businesslike although they could see some benefits from the resultant focussing on the service. A Scottish manager of one of the DSO customers was specific about the improvements to management and accounting:

... it sharpened pencils, it brought in business processes and business planning that perhaps wasn't there before, and there was at least a greater understanding of cost relationships that wasn't there pre CCT (AA.109).

One of the managers who had used the word businesslike in a more general way became more specific about the value of having improved costing information about the service

Now one of the results of setting this up as a business unit if you like is that we've had to set up job costing, to identify truly the cost of outputs, so we are now able to say well, the provision of the building inspection service has got an identified cost. We know what our fees and charges are and therefore we can report back to the council and the public, that the retention of building inspection services in-house is demonstrably competitive with the external market. Now if building surveyors come to town in a big way and undercut us and we can't control our costs, then we'll get out of it, and that's right and proper. Now two years ago we would have been in no position to have confronted this... (H.115).

A Scottish local authority accountant would be amazed by the last statement, as council accounts in the UK provide that sort of information, not just for the DSOs, but for each service. It would seem that in this New Zealand council the use of BUs enforced adequate accounting for the significant activities. And yet the accounts of this council for previous years seem to have reasonable information in them about each of the activities. Either there were problems with the credibility of these accounts, which did not seem to be the case, or some managers needed the assurance of the BU title to convince themselves that they had “truly” costed their services. This seems an example of Pfeffer's productive organisation of activity around a shared definition of technology (1981).

Business units are intended to - change approach of staff

One of the BUs at the Commercial Council had been created and another started off during in the six months before the interviews. This meant that some of the more subtle changes resulting from becoming a BU were still in people's minds. A number of individuals, including one of the BU managers, mentioned that there had been a change in the staff attitude to their tasks since becoming a BU. The manager said that the interesting thing for him had been that when he wrote his comments in the six month review he had found himself writing about containing expenditure to income levels rather than to budget. Another manager commented on the "attitude shift" she had seen in the BU personnel so although "the changes might look a bit cosmetic, you can actually see some of the behavioural change starting to occur ... they are much more sort of, responsible now ..." (O.20,107). Observations like this were seen as arguments for using BUs to establish more "businesslike" attitudes in staff.

Business units are intended to - provide a benchmark for the private sector

A manager suggested that one of the things BUs are for is create a comparison to alternative suppliers to see if the amount being charged internally is reasonable. The reverse logic also applies, by creating a BU a cost can be found which can be used to assess private sector prices for reasonableness. This was mentioned by several people in both countries, including this New Zealand financial manager, who described one of the big city councils splitting their outside maintenance work, between a company and their own service delivery people "... and so they do 50% of the work each and they keep each other honest, in terms of charging" (E.132). A Scottish manager suggested that a DSO could provide tender bids to benchmark private sector bids which would reduce the possibility of the private sector taking advantage of the council or cartel pricing.

Business units are intended to - capture efficiencies for benefit of public sector

When talking about the initial setting up of Enterprises in 1992 managers in the Commercial Council said that BUs were seen as a way of keeping services within the council as opposed to being pressured to contract them out, and thus any saving possible from a different way of running the service would accrue to the council rather than "simply evaporated into the private sector ... "(P.12). Similar observations were made in Scotland about the value of winning DSO contracts in-house. The process of preparing for competition had changed ways of working, provided better costing information etc, and this “sharpening of their pencils” had meant that the potential savings from changing operating practices were all kept within the council instead of having to share them with a successful private sector bidder.

Business units are intended to - capture efficiencies for councillors to use as they choose

The question of how to deal with the surplus income or “profit” raised by a BU was discussed in the last chapter. One of the possibilities was that the council should take the savings and spend it on councillor priorities, rather than allow them to be absorbed back into services or spent on provider (officer) priorities. In the Public Good section of the last chapter this was the main reason given for creating CC as a BU. The justification was also used for the pricing mechanism being used in Enterprises:

... Enterprises is charging at the market, in other words if you had opted to use an alternative provider of that service then you would have paid the market price anyway, so what you are doing is being transparent about what the true cost of providing a service is, and then that surplus is actually a surplus that's available to be, support the rest of the organisation (I.135).

This is an interesting use of the expression transparent, as none of the users of the services of this particular BU would have described its costing or pricing as such. In addition, the equation of 'true cost' with 'market price' illustrates a particular mindset that sees the transaction from the point of view of the council centre and support services rather than the front line service purchaser.

Business units are intended to - demonstrate efficiency and normative behaviour

There are two strands woven together here: many people said that a BU allows the service to demonstrate that it is operating efficiently, and many people said that it was a proper way of doing things, and in several cases the two ideas were soldered together and justified each other:

But at that time we went through and looked at those four options; the status quo, the BU, the LATE and the management contract or franchise, and identified that the BU was really the one that was most desirable. So there I think was the seed of the idea. Now I wasn't privy to the management team discussions or the council meetings where this, these issues were raised but I think that um from that time the issue was pushed as being a desirable thing to do, and we could see other councils round the country doing it, with some success they were, they were working out well. They were seen as a good compromise between what we were doing which was seen to be inefficient, we couldn't demonstrate that we were efficient, um because it wasn't a transparent way of doing things, um it was a good compromise between that and going to a Local Authority Trading Enterprise where council lost a lot of control, they didn't want to lose the control, but they wanted to show that we were doing things well. And really the best way to do that is by forming BUs and having ring fenced accounts if you like (N.140).

This middle manager had worked for the council during the decision making process that ended up with his section as part of a BU. He saw the choice of options as being open, but once the BU had been chosen as favourite then it was pushed as “a desirable thing to do”. Other councils which had followed the same path were seen as successful, providing a mimetic isomorphic influence, and the reasons for choosing a BU form were rehearsed well enough for most of the managers concerned to “buy in” to the idea:

The Chief Executive put out a paper about um the philosophy behind BUs, and he said in there there is certainly the opportunity or the scope for more BUs ... So yeah that certainly seems to be the, the flavour of the times anyway, to have these BUs (K.82).

This accountant was perhaps a little cynical about the benefits of BUs, but could identify a process in which the BU form was being promoted to become the normative form within the council. The apparently molecular-level relationship between BUs and efficiency is highlighted in these next two quotes. Again, the more cynical view is that expressed by an accountant:

I think BUs are probably a um defensive strategy of er, local authority managers, to be able to say I can be just like a business man, a business person, and I can be efficient, and I'll do that by mimicking a company, a commercial enterprise, and I'll show a profit, which will demonstrate that I'm efficient (E.197).

... if we view BUs as a means of demonstrating efficiency, and we put a reporting structure in place that, that provides for that demonstration of efficiency ... (H.89).

Forming BUs was being seen as a desirable thing to do. It offered legitimacy as other councils were doing it, apparently successfully, and it offered a chance to demonstrate that the council was pursuing the efficiencies that were associated with the BU form and

notion of businesslike behaviour. By using the BU form to satisfy the perceived demand for evidence of efficient behaviour the council officers hoped to deflect any pressures to push service even further away into a LATE, or the private sector.

Business units are intended to - provide transparency about costs of service

As mentioned earlier, in the New Zealand Commercial Council the electricity and gas services had been cross-subsidising each other prior to the ring fencing of their budgets associated with becoming BUs. The same thing had applied to the water service and the rest of the council. Although the revenue costs were being accounted for separately the capital charges for Water had not been separated from those for the rest of the council. No accounting rules changed with the creation of the Water BU, existing rules were applied, but the perception of a different structure that was somehow more immutable than an ordinary part of the council was very strong. The introduction of what was seen as an economic based structural form lent authority to the accounting rules that had been adopted to support that form.

For me, one of the things that has become really apparent with the establishment of a BU for water is suddenly there's been a focus on the true costs which previously just did not happen, it was hopelessly under priced, because it was just not meeting the full cost. It was never having the share of the capital and its capital that we were spending on water that was just going against the ratepayer as a whole. Now it's really interesting sort into year two into BU for er water, its price has gone up, why is that? Because last year they spent whatever it was, X millions of dollars on all these wonderful capital things, that previously got spread across everybody, now it's been narrowed, put on to water and the interest costs are driving up their price of water, which is as it should be.... Because why should the farmers out in the rural

parts ... be paying for the water that I am using? ... but if you take a true commercial position and say, well given that the council's invested all this money in its water supply, that's got a value over 200 million, don't you think we should be getting a return on it ... you can argue that it's not and has never been fully costed (P.67).

Although this quote starts off by saying that the establishment of the BU has created this cost visibility, the later parts imply that this was one of the reasons that drove the creation of the BU. The speaker links equitable treatment for the rural, un-serviced electorate with the discovery of the “true” costs, and thus one of the positive outcomes of setting up the BU. But none of these links are interdependent. It seems that the unfair treatment of the farmers was understood before the BU, and indeed was one of the reasons it was set up. The inequity could have been solved in other ways, by using a different Uniform Annual Charge for town and rural properties for instance, or changing the rateable value differentials. True or correct costs have been seen to be a moving target already, and it would have been possible to calculate a figure that included a more appropriate part of the capital charges without a BU. The speaker then goes on to a different proposition, that the water supply is an investment and should be earning a return on its capital value which links on to the later section on capturing value for the benefit of the public sector.

Business units are intended to – be a method of forcing political decisions

Using a BU to create cost visibility leads on to using that visibility to create political pressures on the councillors.

Question: But you can produce better costings, or more accurate costings, fuller costings for something without making something into a BU.

Answer: Ohhhh. (Sighs) there isn't the will to do it. Because when push comes to shove, [the councillors will say] they can't have water at that price, they

will kill us, look take some of our debt, put it back to other parts of the councils, that's what happens, and that is what has happened. Very very hard, if you're producing a BU with a proper, even a notional set of accounts to say oh hang on don't like the result that we are getting, it becomes, well we can do it, but it becomes terribly transparent, exactly what we are doing, whereas under the former and current slash former accounting regime you can do that with great ease, you just say things like oh we've got a new method of allocating, and it's going to be done on the basis of, um, journal ledger transactions or some other thing, er ratio of capital to the assets of the... you can dream up anything you like and then roading gets it all, you know? And roading ... Effectively they are paying for the recent water developments, so I think when you put it into, you know, you properly relate it to the assets that are there, and you construct a, er, even a notional balance sheet, it's a lot harder to er, dick around with it than it is now, you can just, we've making, I'm sort of speaking from guilt and sin here because I know we've done this, I mean that was always held up as one of the great advantages of the larger local authorities, you could spread your costs around. You sure could, but I don't know that it actually meant that you were being entirely fair or equitable in the way in which you were making people pay for it (P.72-75).

The framework for the BU, being couched as rules and accounting regulations, made it more difficult for the councillors to amend in order to make the charges appear more reasonable to the electorate. If amendments were made, then they would appear more obvious. The final goal identified here is to relate payments by the public to the services that they are paying for. This was not widely identified as associated with the establishment of BUs, but is a movement that will be re-visited in the later chapter on Tax v Charges. These last two long quotes concerning transparency both illustrate the way that interviewees conflated BUs accounting and structure. The first one argues that the

BU structure supports good accounting and equity, the second that the accounting rules for the BU provide a *force majeure* for a political argument.

Business units are intended to - allow a service to prepare for becoming a LATE in the future

As mentioned previously, the adolescent LATE view seemed to underlie a lot of the commentary on BUs. Discussion of the relationship between the two revealed a lot about individual interviewee's conceptions of the organisational forms and their relative merits. One senior accountant recently arrived at the Commercial Council from another council described a BU there as being set up with the specific purpose of it becoming a LATE as opposed to the long term operation of Enterprises as a BU. This interviewee was clearly frustrated by the way the BU form had remained static in the Commercial Council, and felt that the council was not acting normally. She had been responsible for the creation of the LATE at her previous council, and could perhaps have been expected to regard that as a normal outcome. But the LATE in question had failed after she had left her previous council, and just before the interviews, so the way in which the Commercial Council's BU had remained operational as a BU perhaps rubbed salt in the wound of the failed LATE.

Other interviewees also held the view that a BU was a step along a path towards a LATE. A manager of one of the BUs saw the move into BUs "as the first step from the left" and the creation of a BU culture as preparing the organisation "for what the future may hold" (H.106). Another manager also saw a preparatory role for BUs, this time in terms of establishing their accounting and recording as separate from the rest of the council, which would allow for an easier "float loose" (N.230). This ease was perhaps because this was the Water BU, which an accountant saw as having an easier potential move into a LATE because of the different dynamic created by having external customers.

These three interviewees saw some of the benefits of the BU form as making an easier conversion to a successful LATE. This does not necessarily imply that the interviewees considered a LATE a good thing, but it does suggest that it was thought possible that the council would eventually create LATEs for the BU services. Two of the benefits listed are framed in financial terms: the revenue source and the definition of the service by its accounting. This last view is an echo of “the delineation of new economic spaces within the state” seen by Larner as a product of the Treasury position paper prepared for the incoming government in 1984, discussed in Chapter 2 (Larner, 1997, p16).

The financial manager interviewee who really had problems with the concept of BUs could only see any value for them as “essentially an interim step” (E.197).

Now um, the logic of the BU has been followed through, the things that I mentioned very early on, the abattoirs, the bus company, electricity, gas, started as a department, lots of cross-subsidisation, no clarity of costs, progressively we tightened up into er, a more independent unit, getting a new name, separate management, separate accounting, so forth, um, until such time as it is corporatised and actually physically leaves mother, goes to live somewhere else, and then you have the arms length relationship and then you have clarity of costs (E.198).

The “logic” of the move from department to BU to LATE is described positively here almost entirely in terms of accounting, working towards separation and “clarity of costs”. The implication is that provision from a multi-purpose organisation, with the risk of cross subsidy and muddy costing, is a bad thing. The examples being used are separate revenue stream, historical corporatisations that had subsequently been sold out of council ownership, and therefore demonstrated their commercial potential.

There were no plans for Enterprises to become a LATE, although, as has been seen, it seemed likely that parts at least of the services it provided would become contestable. However, the BU experience was seen as preparing the staff for whatever was to come by providing practice at operating in a "quasi-commercial" way (P.12). These managers saw the BU as a proving ground for competing with the outside world but as a part of the council, rather than being an interim step towards a LATE. The BU was a step into some of the jargon and perhaps the mindset of the commercial world which might provide a more efficient service which could win in competition with the private sector. And the BU could do this without the potential for failure and loss of control by the council that a LATE would entail. The manager who could be seen as the motivating force behind creating the BUs in the Commercial Council was not happy about moving services into LATEs:

Now by having it as a business unit you have got a fair degree of control over it, you can minimise your risk, um, by putting it into a LATE, I'd always think really long and hard about making Enterprises into a, or part of it into a LATE, I mean it is a possibility. Because I think well, why would you do that, I mean first of all any surpluses you get are taxable, so you are losing some of the value you get by having it in-house, um secondly it's a um, it's a tough market, and it's been over the last few years there's been [a] few examples now of LATEs that have gone under, one most recently in er, ... Council. So you are exposing yourself to risk, and even if you succeed, so what, um, you've then got the opposite problem of having a voracious capital eater, that wants more and more money to be more and more successful, which is what happened to XXX. Eventually they sold it, for a very nice sum I might say, so where does that take you, so I, if I ever got to the position of someone saying to me um, it's either going to be a LATE or we are not going to have it at all,

my inclination would be to say well in that case we are not going to have it at all (P.49).

Although the speaker does not have a financial background most of these arguments are expressed in financial terms: the risk of insolvency, or of losing value by becoming taxable, or of diverting capital or profits to investment in growth. This illustrates perhaps two things: the framing of BUs and LATEs as organisational forms by finance and the pervasive nature of economic discourse in New Zealand society

Business units are intended to - retain asset value for the benefit of the public sector

At the time of the interviews, five years after the creation of Enterprises, the threat to the Commercial Council's services from contracting out remained. As the last quote shows there were problems associated with conversion to a LATE. BUs were seen as a compromise which allowed the council to keep the infrastructural assets and also the value of the accumulated history of the service and the institutional knowledge of the staff. There was seen to be a need to protect the value of the Council's investment in the BU, "an incredible reservoir of knowledge, skills, assets" (P.26) etc., which would be the responsibility of the BU board.

The idea that a service could be an investment, or have a value to the council over and above the book value of the assets is an interesting progression from better utilisation of service assets. It is a particularly New Zealand concept, given credence by the council sales of corporatised council power companies. The survey showed that, with the exception of the smallest councils, where services were being provided from outside the councils they had usually been sold rather than simply contracted out. The idea did not develop in Scotland because of the impossibility of councils creating wholly owned

commercial companies which could then be sold. So transfers of service out of Scottish local authority control have produced either no cash, as in the case of water and further education, or fire sale prices for assets such as refuse collection vehicles when CCT contracts have been lost.²¹ The services provided from within Scottish councils are seen from the accounting point of view as a set of costs that produced a set of outcomes.

In New Zealand the wider view that councils can take of their activities means that they can be seen as investments or as assets, instead of or as well as being a means of producing significant activities. The issue had been considered at the Commercial Council, who had the experience of corporatising and then selling their power companies. Should a LATE appear in the accounts as an investment or as a service? The council had established a jointly (with other councils) owned tourist promotion company. This was seen as a service provider and appeared as a small investment in the balance sheet and the annual contribution as a cost of the appropriate service. On the other hand the Engineering Council had jointly owned forests which were managed commercially, and were accounted for as investments. These were described as “family silver” assets. The value attributed was a commercial valuation of the forest; the standing wood and the forest land. However, more complex services would have value other than that of their physical assets, such as the future value of income streams or the going concern value of a team of professionals with a historical knowledge of a service.²² These values cannot be shown on the council’s accounts, indeed they cannot be quantified until there is someone

²¹ The sales of council houses could also be seen as producing fire sales prices as they were forced on councils at prices discounted from the property valuation. In many Scottish Councils the average value received from house sales is less than the average outstanding debt per house.

²² For instance where a maintenance service is to be contracted out, the organisation taking over the existing staff would expect cost savings in comparison to an organisation setting up a team from scratch, both in team dynamics and insider, institutional knowledge. The council could expect a cheaper tender from a company taking over existing staff, or a higher sale price for the corporatised service.

willing to pay them, and for that they would have to be corporatised into a LATE and the LATE sold.

The setting up of BU accounts isolated the tangible assets that “belonged” to the service, it would appear often for the first time, drawing attention to the value the council had vested in the service. Although the intangible assets cannot be shown on the BU accounts the view of BUs as a path to LATE-hood means that BUs can be instrumental in capturing this value for the benefit of the public sector.

The list of what BUs are intended to achieve includes items that relate directly to the various defining qualities of BUs and items that are more closely related to the way that they are used. Accounting provides most of the elements given as defining BUs; ring-fencing from the remainder of the council, and measurements of success. These in turn underlie most of the reasons given for using BUs; capturing efficiencies and asset values, and providing a benchmark for private sector prices. BUs appeal to accountants as a form that “enforces” the accounts to follow accounting requirements (rather than those of politicians). Managers also appreciate this assumed ability of BUs to define their form in the face of contrary political desire. As an accounting defined organisational form BUs could be called profit centres. But BUs are more than that, they also represent the imputed value of the commercial world: efficiency. The BU form can legitimate the organisation of a council in a world that values businesslike behaviour on the assumption that it produces efficiency.

Inherent Instability

One question was asked of all of the interviewees after they had explained the benefits of having BUs: is it possible to achieve these ends without creating a BU? The answer in

every case was Yes (although often followed by “but ...”). It seems then that BUs are seen as a useful but not a vital structure to achieve some of the managers’ and accountants’ desired aims. No-one claimed that the BUs were all good news, and the interviewees could be seen as being in one of three camps; those who thought the BUs were a positive thing, those who accepted them as decisions that were made elsewhere and those who had problems with the concept and its application. Where problems with the BU structure were discussed a common theme emerged: BUs were seen as an inherently unstable organisational form. This was particularly clear with the third group of interviewees. The conversations with this last group resembled big dipper rides, where for every positive climb there was a swoop down and the conclusion in each case was that BUs were not a sustainable format for activities, and the services concerned should either be formally separated from the council into a LATE or completely privatised, or brought back into the fold. The problems that cause these instabilities can be grouped as follows: multiple loyalties, selective application of accounting principles, loss of institutional knowledge, distancing purchasers from service recipients, and the interim role for the BU structure before corporatisation.

Inherent instability - multiple loyalties

Several of the interviewees commented on the way the BUs created their own loyalty within the council. This could be seen as a positive benefit to the BU service but it could also create conflict with loyalty to other sections or the council as a whole. Councils, with their multi-function roles, can be viewed as a collection of institutions or cultures, some side by side, others nested or overlapping. An employee can see themselves as a member of the Payments Section, also part of the Exchequer Section and the Finance Department; a children’s librarian can have loyalties to the Children’s service, the library they are based in and the Library Service. What an individual means by “we” will vary from person to person, from one topic of conversation to another and also over time. In a

council the contact points of the various institutions often have common boundaries or line managed nesting, or have simply been accommodated over time. But a BU gives more potential for conflict. For a start the creation of the BU is a change, which means that the institutions have been shaken up and will probably be more vulnerable. BUs are established with a different aim to other parts of the council, they are required to be “businesslike”. The manager of a new unit will possibly work consciously to establish the difference; to build a “business culture” and to persuade staff members that they have done a right thing in becoming part of the new body. The emphasis on the difference at the same time as change may have enervated the whole-council institution for those affected. For those not affected by the creation of the BU it seems to be difficult to understand the relative unimportance of the whole-council perspective to the BU members.

Much of the comment on loyalty conflicts in the Commercial Council centred around the issue of training, as was seen earlier in this chapter. Tension between the BU and its customers was seen as natural, but tension between Enterprises and the corporate core of the council conflict seems to have come as a surprise. It was the corporate core that used this example to show why they felt that BUs were unsustainable. Despite still being part of the council they were acting as if they were separate, and affronting the assumption of the corporate staff that all the council should do as they were told on corporate matters. The BU on the other hand had decided that as a business it would be able to pick and choose what it required.

Inherent instability - selective application of accounting principles

The accountants, as have been seen, had real problems with the application of some accounting conventions but not others:

the point is, why do we have business units, is it just to have a businesslike approach, or is it to ring fence the accounts and make sure that they are posting profits because when you set up a company you actually have the concept of rate of return, when you set up a company whether it's in equity or debt or you have an asset, you get, am I getting my rate, return on capital employed, return on asset employed, so it becomes an owner and equity relationship. ... In a BU, if the focus has been simply to inculcate the culture of being businesslike then the ethical question comes, whether they can charge profit, and whether there is a notional dividend (M.17).

The accountant's logic was that if a service behaves like a business then it should be structurally framed as a business; it should have freedom to provide the services it chooses to whom it chooses, and it should have an ownership structure which gets a return on its ownership. If it is not separated from its customers any "profit" made by the service is meaningless, and ethically questionable. These points were made by the New Zealand accountants, but not by the Scottish ones. There may be two reasons why this seemed to be a division on national lines. Firstly the DSO regime in Scotland had been in place for over ten years, and was being softened which had led to less distinction between the DSOs and their customers. Any surpluses were being recycled (or being planned to be recycled) within the service that had generated them, "profit" was no longer being seen as an appropriate word for any surplus of internal charges over cost. The link between DSOs and commercial behaviour was being overwritten by the council-wide goal of Best Value. Secondly, the Scottish accountants were not primarily trained within the private sector paradigm, so had no private sector model to compare council accounts with, for instance they did not expect to see the net assets of the council balanced by a private sector type funding of equity.

Inherent instability - loss of institutional knowledge

Several of the New Zealand interviewees used the term loss of institutional knowledge in discussion of change or loss of staff. The examples they gave ranged from the detailed day-to-day, such as which file information would be in, to the political awareness of the relationships between councillors and officers in that particular council. The depletion of institutional knowledge was considered to slow operations in organisations where a lot of staff had left. Several people mentioned one of the large city councils in particular as having a "vast staff change", including an interviewee who had moved there from one of the case study councils. With only one member of the council's management team having been in post for more than a year the council was described as having a "fraction of the institutional knowledge there that there should be" (E2.122-125).

BU creation, being a change of structure, means that some staff change roles and some may leave the council. The New Zealand case study councils had not had that much problem with this issue: the creation of Enterprises and Customer Services had shed staff, but the creation of Water and Consultancy had not. However, it seemed that staff did not have to leave the council to cause concern about the compromising of institutional knowledge. Each creation of a BU meant that existing staff had to be split between purchasers and providers and as a result the total institutional knowledge was divided. Although the knowledge remained in the council, the different loyalties of the purchasers and providers meant that information was not necessarily shared. The resultant tensions were clear in the Engineering Council with information "... owned by asset management but it's all, a lot of it resides within Consultancy....."(AP.49). And for those who saw a BU as being a precursor to a LATE or vulnerable to competition from the private sector, the institutional knowledge in the BU was seen as at risk of leaving the council.

Although institutional knowledge was not an expression used in the Scottish case studies the softening of the DSO split between purchaser and provider had illustrated to several of the interviewees that keeping knowledge in-house and available improved the operation of services.

Inherent instability - distancing purchasers from service recipients

One of the original reasons for setting up CCT had been given as removing service specification from the providers' priorities (labelled as "provider capture") and thus allowing the service to be more responsive to the needs of recipients. It had become clear to some of the managers that this produced a side effect of breaking the feedback link from the recipients to the providers to the purchasers, and one of the welcomed effects of the softer split was that the link was being re-established. Although provider capture had been a UK concern, and had not featured in the New Zealand justifications for BUs, there was one New Zealand example proffered from a group of BU managers who pointed out that there are still some problems with staff who do not provide what the customer requests but what the worker thinks they should have. An example was given of a customer who wanted sketch drawings, but full plans were done which took 20 hours and so the bill was for \$5,000. The officer's response to enquiry had been "we don't do sketches".

So the change to BUs had not completely changed the way people worked within them, nor broken all the links to providers, as was seen in the cemetery grass cutting examples. Nevertheless the distancing of the purchasers from the front line was seen as making the service unresponsive to the needs of the public. Where the BU providing the service had no customer-pleasing motivation, either because there was no direct relationship, or where the purchasing rules meant that the internal customer could not take their business elsewhere, the possibility of provider capture remained. The BU potentially made the

flow of information from the public to the decision-makers more tortuous, without providing the commercial imperatives of pleasing the customers.

The interviewees who had been on the big dipper rides in their discussion on BUs kept coming up with plus points, only to follow them with minus points. This can be interpreted as trying to be as objective as possible about something they knew they had an emotional reaction against. Possibly they felt they were operating in an environment where being against BUs was not a good career move. Indeed one of the interviewees had moved on because of disagreements about BUs. His feelings were quite clear throughout the interviews:

these people live at the other end of the corridor, and a lot of the so-called service provision is entirely artificial.... Now it's one thing to be business like and it's one thing to say I'm allocating the cost of this to the rest of the organisation to get a feel for what final output is on delivery, it's another thing to say that you run it as a business, because running a business is quite different, it presumes some contestability, some choice by the consumer and some choice by the governing body of that business to decide what business it's in. And whether or not they want you as a customer you are not really running a business if you've just got one customer (E.167).

So in New Zealand BUs seem to their detractors to fall between a traditional council provision and a commercial alternative, and as such are seen as a temporary structure. The problems they potentially bring of conflicting loyalties, loss of knowledge, and distancing the decision makers from the front line compromise the service provided, and being neither one thing nor the other upsets supporters of both sides. The result is that critics see the only proper role for BUs as an intermediate, a step on the way to a LATE.

Inherent instability - hybrid and transitional

The variety of reasons for using the BU form in New Zealand gives an incoherent rationale for BUs in general; what can be seen as sound reasoning for one BU makes no sense for another. This lack of internal consonance leads to the view that BUs are an ephemeral form:

I think a lot of the thinking about the so-called business units um will straighten itself out once er people are clear in their own minds about what parts of the council can be run on a commercial basis and those that cannot (E.45).

One of the interviewees in the Engineering Council felt that much of the change that had happened was part of a cyclical process, and although change may be needed to shake up services and attitudes, in time the structure might revert back to provision from within council departments. However, that was not a common response, and several people saw the move through Table 8 at the start of Chapter 6, from department to business unit to LATE to private contractors, as a one-way path, with very little chance of return:

... there is every likelihood that we will continue moving further down the separation of services and contracting out of Consultancy services and professional services and I don't think there's much likelihood that we will reverse the direction and become a big engineering department again, I think that's highly unlikely (AQ.36).

we had what was called a XXX Business Unit which we would put all of our, a lot of our commercial activities into, and maybe eventually that could have got sold, I mean that would have been a natural progression (AI.288).

you know it's an evolutionary ..., in that particular case it wasn't set up with that in mind but certainly when I look at it now in the kind of, these Chinese walls between

these two departments, well you can debate that, but if that's the regime we are now into there's absolutely no need for us to have [the BU], they should be out (AO.109).

Although each quote is made by a different person, and each is specific to a particular department and surrounded by qualifiers, the language used betrays the underlying assumptions that this is a one way street: “reverse the direction”, “natural progression”, “evolutionary”.

The softening of the CCT splits in Scotland, and the enthusiasm with which they are being welcomed perhaps shows that the move along the scale of provision from council run services to BUs is not an irretrievable step, although plenty of the New Zealand interviewees thought so in 1998. The peculiar situation that their BUs are in, with no legal status and no commonly agreed rules led one New Zealander to comment on the set up:

... ten years ago on TV it was saturated with ads for an Aussie drink called Claytons and it was basically non-alcoholic alcohol, and it was always some Aussie guy "it's a drink you can drink when you don't want to drink" So there are all sorts of Claytons jokes around, and I call it Claytons competition, or Claytons, not-competition, so, yeah I don't think it's working very well in practice, personally (AP.49).

This section, Inherent Instabilities, has discussed what people saw as the problem areas of BUs. Each potentially weakens the ability of either the BU, the council, or both to deliver a quality service. BUs combine a hybrid of public sector provision with commercial accounting, which produces what many in the councils view as a transitional

organisational form, destined to become something else; a LATE, or a private entity, or revert to direct council provision.

Key Questions

Business units are an example of accounting framing change within the organisation.

Almost all of the commonly agreed and most of the disputed essentials of BUs are accounting concepts; they are being used to define the different parts of the council. The BUs in the case studies have been established for a variety of (mostly non-accounting) reasons. The role of the accounting profession in creating and defining BUs is more subtle than its involvement with overheads. In Scotland CIPFA supported the mechanics of DSOs, in New Zealand the commercial bias of NZSA led to the private sector comprehension of BUs. Like overheads the BUs are accounting implicated initiatives which emphasise the mutually exclusive boundaries of individual services, but they are also seen as a preparation for separation from the local authority, a “leaving Mother” that really reduces the multi-purpose-ness of the council.

How were people involved in local government using accounting and to what end? - the BU as an accounting construct

Although from the outside the business units in New Zealand looked similar to the Scottish direct labour organisations, especially from the accounting point of view, the way they were regarded on the inside of the organisations was different. The main cause can perhaps be traced to their establishment. Scottish DSOs were a commanded operational form, resented and complained about perhaps, but seen as a political imposition. The decision to soften the DSO rules was similarly political. Within the case studies there was a sense of progress being made despite the accounting rules set by the legal environment in which the councils were operating.

In New Zealand the creation of BUs (except for the work done for Transit New Zealand) was a choice exercised by the councils themselves, and the reasons for that choice varied from BU to BU. In addition the first form of Scottish DSO, the direct labour organisation, was legislated for in 1982 so the idea has been around for some while, whereas in New Zealand the Business Unit concept has been around for half that time. In Scotland the form was losing ground in the face of Best Value, in New Zealand the form was still a current issue with the creation of new units.

The Scottish DSOs had to conform to a set of rules imposed from the outside of the councils: there was no way for a council to provide that service itself except through a DSO. The question of whether a DSO was appropriate had been taken from council hands, so all that council people could do was decide if they would compete, and if so how would they apply the legislative framework in their council. The Agreement Council took advantage of the national political change to use accounting to refocus the DSOs on their service rather than economic outcomes by altering what was done with the DSO surplus. The Imposed Council was using its accounting to define a DSO surplus which could be redirected within the council. Even within the legislatively defined accounting of the DSO regimes accounting was being implemented to two very different ends.

In New Zealand the first use of the BU format was for works departments. But councils had more than one choice, they could form a BU or form a LATE as well as choose not to perform the Transit work. One of the case study councils had formed a BU, converted it to a LATE and sold the LATE. Accounting had been used to comply with the law whilst maintaining the service under the control of the council and then used to convert the

service into an asset which could be sold. By accounting for the works service in this way the council had effectively created an investment.

The later requirement that design works be separated from asset management had not originally resulted in a BU in the Engineering Council, and it could be argued (and indeed was by one interviewee) that the subsequent changes of reporting line, budget holding and nomenclature had not changed this state. The Consultancy BU looked a lot like a support services department, and was charged out in much the same way as an overhead. In this case the accounting being used for the BU was just sufficiently different from that for the rest of the council to support the idea that this service could be labelled as a BU, thus providing legitimisation for this way of complying with the legislation.

The Commercial Council had chosen to account for a lot more of their service provision in the Enterprise BU along with Works, a move that was explained as pre-emptive in a privatising climate. This is similar to the quarantined group of units under threat identified from research into internal charging in the UK public sector (Lovell et al, 2001), except that, rather than placing the vulnerable services into “quarantine” to protect the rest of the body from contamination, the services put into Enterprises were placed there for protection themselves. Later BUs in the Commercial Council had been created to fulfil different needs. According to the Annual Plan the intention was to gain process improvement gains and enhance the value of the council’s assets (Commercial Council, 1999). However, the perceptions of the interviewed individuals suggest that the decision makers of the council had seen the advantages of BUs as camouflage in an increasingly commercialised world, and then used the format to achieve specific political aims: the introduction of user charges for a ring fenced Water account and creation of councillor usable savings through the Customer Unit.

The implied isomorphism of the BU format is less clear when individual BUs are examined. The accounting for the business units and the way they are run are not all the same. What they have in common is a title and an accounting defined boundary. Much of the isomorphism is virtual but, unlike service level agreements, not because the action and results parts of Pollitt's convergence are absent, but because they are different in each BU. The use of BUs has enlisted an accountancy defined isomorphic label to achieve management aims.

The role of the profession – interpreting the rules and setting the commercial climate

The role of the profession concerning BUs is quite different in the two countries. In Scotland CIPFA provided technical guidance on accounting for DSOs. As far as the accountants were concerned DSO accounting had to be done, and following Institute guidance ensured audit approval of the accounts. Examples of good practice showed success stories. Thus practical instruction in the accounting mechanics became tacit approval of the accounted for structure.

There seemed to be no similar global advice in New Zealand, the accounting for each BU was created by each council's accounting staff and their consultants. The instance of the debt calculation for the new Water BU illustrates the *ad hoc* accounting being used. But in New Zealand the strength of the economic discourse referred to by Larner had framed expectations of the way organisations of all sorts operated (Larner, 1997). In this climate the words businesslike, commercial and efficient became synonymous and price became an acceptable term in the public sector, whilst cost became a wholly negative one.

Business units fitted well with this language. However, as has been seen, they did not fit with the accounting profession concept of a business. The accountants, with private

sector training and in some cases with extensive private sector experience, had problems with the BU structure. With no competition, no choice of provision or customer and no clear concept of return on equity BUs were seen by the accountants as neither fish nor fowl. With accountant interviewees saying they felt BUs should either become LATEs or return to being an ordinary council section the accounting profession in New Zealand could be seen as destabilising influence on an organisational structure defined by accounting.

Consequences - the centrifugal council - service separation

A service provided from a business unit has a particular relationship with the rest of the council and, in the case of services with separate revenue streams, with the public. That relationship is defined by quasi-contractual arrangements couched in accounting or economic terms: preserving value, prices, return on capital etc. There is a service aspect to the relationship, but it is matched with an economic one. There would have been an economic relationship prior to a BU being established; people paid water charges, services paid staff to provide reception services, but the water service or customer services were not defined by their accounting format. The increased use of BUs in New Zealand councils brings an increased use of accounting as the currency of relationships.

If some parts of an organisation are established as BU shaped economic spaces it becomes more normal to view other services in the same way. Defining any service by its accounting sets a sharper boundary with the rest of the organisation, thus emphasising the image of a council as a collection of separable units.

A Business Unit defines a part of the council as different and separate. In New Zealand they are also seen as a precursor to corporatisation, which makes the separation legal, or even sale of the service; creating a complete divorce from the council. In these

circumstances the BU is a centrifugal force. In Scotland however, where split softening has happened, the force is in the other direction, and some value has been placed on operating in a “joined-up” manner. Despite this, the legislation undoing the need for DSOs has replaced it with a requirement for trading accounts to be produced for all significant services where there is a commercial alternative and where the council charges more than the cost of providing the service to the users. In both countries, it seems, the BU model seems destined to continue diluting any synergies produced from the multi-functional organisation.

Chapter 8 Tax versus Charge

This and the next chapter set out to examine the perceptions of actors within the case studies of changes in the ways council services are funded. These changes have been effected by the use of accounting devices. In comparison to New Zealand, Scottish councils have relatively little say in their income mix as around 80% of their total income comes from central government. The Scottish situation and the councils' responses to it are examined separately in the next chapter. This chapter concentrates on the New Zealand picture.

New Zealand councils have what one interviewee described as a "mixed cocktail" of ways to raise funds. In the councils studied there had been a move away from raising most income from a general tax to having a greater role for specific charges. These changes are the result of choices made by the councils in response to perceived pressures, and have been made as a series of individual responses to particular problems. Seen as a whole though, the changes amount to a movement away from the funding of services on a community insurance model and towards a user pays model. The mechanisms which accounting has provided to deal with those particular operational problems have, perhaps inadvertently, contributed towards this movement.

Rates Background

New Zealand has an advantage over European countries in that its land tenure is relatively recent, and in the most part post-dates the introduction of land recording. Areas became available as the land was purchased, surveyed and carved up into sections (land parcels)

on paper before new owners moved in. As a result ownership is well recorded, which makes levying taxes based on property easy.

The law allows for two rates bases: capital value and land value. All New Zealand properties are revalued every three years by Valuation New Zealand. Capital value relates to the price the property would fetch on the open market. Land value reflects the value of the underlying land, not of the structures built on it, so two houses of differing sizes on the same street will probably have the same rateable value because they were sited on the same sized sections. Councils can choose which base to use, and can use different bases for different rates. Councils can also apply different differentials to different classes of property for each rate levied.

Rates can be set solely as cents in the dollar of rateable value or include a uniform annual charge (UAC) on each property. Rates can be set as a general rate or for specific purpose. Rates set for a specific purpose have to be spent on that purpose. The limits for rate setting are simple. There is a maximum rate that can be set per dollar of rateable value. All the New Zealand councils were well below this amount in 1998. The other rule is that no more than 30% of the rate take can come from uniform charges.

There is one further land based income source, which is the development levy, charged on property development per section sold. This is a hypothecated tax and has to be spent on recreational provision in the area from which it was raised.

Rates based on property accounted for 58% of total income in 1993-94 with 26% from sales and fees, 4% from investment income and 1% from petrol tax. The councils may choose to charge for specific services. The remaining income comes from grants,

subsidies and levies from central government and other local authorities and organisations (Statistics New Zealand, 1996). Although rates are the largest part of the income, sales are a substantial part, and some services are provided on a mainly self-financing basis. Within the broad framework of the various Rating and Local Government Acts New Zealand councils can choose how as well as what they fund.

Long Term Financial Strategy

The Local Government (Amendment) Act (no3) 1996 required councils to produce a long term financial strategy (LTFS). This was intended to allow councils to plan (on a three year rolling basis) for their financial needs over the next ten years. Both capital and revenue costs had to be projected forward. As part of the determination of capital costs councils had to ensure they possessed complete asset registers, which would allow them to plan for maintenance and replacements. A strategy had to be in place for the financing of capital works. In addition, a review of activities and funding was required. For each activity the council had to go through three phases of consideration to decide on the proportion of funding that should come from the public purse and the proportion that should be met by the user of the service. At the end of this process the council would know what was needed to be raised from rates over the next ten years, and could consider the political implications. This Act is put in context in the section on Legislative Framework - New Zealand in Chapter 2.

The two New Zealand case study councils had both followed the process within the timetable set out in the Act and each had found that the LTFS highlighted problems with their future strategy. The problem areas were quite different, with the Commercial Council having major problems with projected rates rises and the Engineering Council having problems with the proposals to increase specific user charges.

45% Rise in 10 years

The Commercial Council approached the LTFS work with asset registers more or less already in place. These had been used to satisfy a change in the accounting regulations which required local government to provide for depreciation through the rates from 1998. The council had been providing for maintenance costs already so there was little impact on the rates as the maintenance costs were simply re-titled depreciation costs. In fact, as was seen with the Water BU in the last chapter, in some cases the maintenance budget was higher than the depreciation amount, so something else could be done with the excess.

The setting up of the funding strategy was even simpler; it was written by the head of finance and passed by council.

Underpinning that is the borrowing and investment policy which nobody ... really paid any attention to at all, certainly not at the public level ... (E.99).

Among other things the funding strategy set down the maximum that the council would ever have as outstanding borrowings as a proportion of the rate income. So if the LTFS came up with spending in any year where borrowing was already at its maximum, the planned funding had to come directly from the rates.

The next part of the process was set up to allow all the councillors to become involved throughout the discussion and decision making. The work of the council was broken down into more than 40 areas, smaller than the significant activities, and considered, looking at current spending patterns and future needs. At this point all the plans that had been considered and approved in principle by the councillors were added into the costing. The appropriate public / private split was debated and decided upon for each service, and

the impact of any proposed change considered to decide what should be the eventual split. This process took much longer than programmed, as many of the councillors wanted to be involved at all stages, but in the end, in order to make the deadline of 1 July 1998 for acceptance of the LTFS, councillors were grouped together for specific parts of the process. All the parts of the strategy were put together and the ten year rates demand projection was built. (A full description of how the process was put together and gone through in the Commercial Council is at Appendix X.) One of the senior managers explained how the officers had ended up getting more involved than they had intended:

... the officers really put together the LTFS. Because councillors themselves couldn't really get their minds around it. Well they were asked to but they, they looked at options and said which option they like, liked. And our first approach to that was saying well do you want to see emphasis on economic development, see an emphasis on um leisure activities, do you want to see an emphasis on a sort of minimalist council? And that really didn't work because they wanted something of everything, so it would have been pretty well eclectic, rather like the annual plan. So all the financial stuff was done by ourselves, but they still wanted a whole lot of things so they wanted their projects to be in it, like a new stadium, event type facility, a couple of other things, er and they didn't want anything left out so it ended up with this, er, er straight line going up in the air with a 45% rate increase over 10 years (E.110 – 114).

The 45% increase did not go down very well with the councillors who considered that sort of rates rise to be electoral suicide. In order to comply with the legislation the council accepted the LTFS on 30 June 1997, and at the same meeting agreed that it be reviewed with an aim to reduce the planned rates rise to zero. The review would be done by outside consultants. In the rest of the interview with this corporate-minded manager

the terminology used was more inclusive, referring to "us" meaning both councillors and officers. In comparison the very polarised language used in this quote is an indication of the distress this process caused.

One of the more junior accountants involved in the exercise spoke for many of the staff involved when she complained that the councillors had sold out the process. She saw the LTFS as being within the funding rules and therefore financially sustainable. The problem was with the politicians who by commissioning a review lost the chance to sell the rates increase to the public by highlighting the additional services it would buy (B.91-92). The way that the councillors had backed off from their own creation did not inspire confidence in their competence:

... they were involved in it all along, it's not just the management dream up this, it's not like that, they were involved in all the steps, and then collectively this was the outcome. ... It is not good enough. When you are involved in it all along you cannot expect that, to me, it denotes to me it's incapability, that they are not capable (B.98-100).

As this quote illustrates, the staff involved in the LTFS were deeply disappointed by the outcome, although with the benefit of hindsight the more senior ones berated themselves for not seeing it coming and taking action to head it off. One officer thought the councillors had taken the process seriously, and put in considerable amounts of time, but had been too petty about insisting their pet projects were included. The councillors' first reaction to the LTFS projected rates rise for the first year had been to restrain it from 5% to 3%, but it was pointed out to them that this would mean that they had rejected the LTFS, as the gap that this produced in the funding could not subsequently be made up (P.121).

The accounting protocols that were used to create the LTFS created a view of the future that was politically untenable (although as one accountant said, financially acceptable in that the rates remained within the legal maximum and borrowing was within the funding strategy limits). The LTFS predicted a rates growth that the councillors would not support. Apart from the actions recommended to reduce costs, which, rather predictably, included unspecified process re-engineering and outsourcing, the consultants also examined ways of replacing rate income with charges. One recommendation was to move Water into a LATE so that instead of paying for the service with a water rate on the same bill as the general rates there would be a separate water bill. It seemed that the interviewees considered that this sleight of hand would work by reducing the headline rises in the rates.

In Chapter 6 the creation of the Water BU was attributed to a desire to get water users funding all of the costs of the water service. The costs were expected to rise steeply to cover the debt servicing of the scheduled capital works. Domestic metering had been put into the "too-hard basket" (N.117-120) for the time being, and funding for the water service was through a water UAC. Before the consultants' report was made public there were already problems with making the water rate politically acceptable and funding the additional investment needed in water services had also been identified as a political problem which was one of the reasons that it had been put into a BU. The BU would help protect the investment from political cowardice by erecting walls of (self imposed) rules around the water accounts. Moving the unit into a LATE designed to generate dividends assumed that metering would be instituted, and takes the BU a step further; the water users would be expected to subsidise the ratepayers.

Time Scale

The LTFS is based on the assumption that councils can plan 10 years ahead but the discussions about the LTFS in the Commercial Council were in the context of a recent history of short term large-scale projects that had made the pattern of expenditure over the previous ten years very lumpy. The effect on the rates had been smoothed by a combination of selling assets and borrowing.

Two of the larger projects had been completed in the last two years, and interviewees were asked if the work would have been done if the LTFS had been in place. People considered that in the LTFS environment "... we would have been in big trouble" (C.34). Nevertheless it seemed that the LTFS would not have stopped these particular projects. The champions for the projects explained why they would have happened anyway, although perhaps in an economy version, because of the good service reasons why they were necessary. Other members of the management team also pointed out the level of political support:

... we had simply got to the stage where er both facilities were hopelessly inadequate ... it was really fuelled by a high level of public er, er support for it ... So er, all the strategic plans in the world wouldn't have stopped the council on it (P.107-112).

Despite the experience of the recent past illustrating that a plan might not be followed no-one expressed reservations about the idea of long term planning, and there was a general feeling that it was a proper thing to be doing. One member of the management team thought that the councillors particularly would benefit from that discipline in another them and us polarised quote:

... prior to that they had been able to get away with thinking much more short term really, in the annual plan, possibly two or three years, knowing there some big projects further out, ... you know, they just kept on sort of piling up the pile of things out in front of us ... (O.14).

However, although the LTFS had provided the opportunity for some long term planning, it had not really produced a change from the councillors' short term plans, perhaps a result of the short term election cycle. The pile in front was still there, pulled into focus by the LTFS process, but the financial implications were not dealt with. Asked about the possibility of the council focussing on the problem without the discipline of the LTFS the response was uncertain as previous strategic planning was not seen to have been wholly successful:

we still have the same problems we had nine years ago, so where's strategic planning taking us, um a much more finely honed understanding of the problem ... (P.109).

The same speaker went on to explain that he thought that the council had been lucky in the past because money had come in (from the sale of the power LATES) when it had been needed for the big projects. These had left the council with "an appetite for expenditure" (P.110) and in the future the council might have to face sudden big jumps in the rates for the first time.

The bundle of measures that were part of the Local Government (Amendment) Act (No.3) 1997 consisted of a combination of finance and management techniques. The funding strategy was described as "putting the council on the same footing as a large corporate enterprise" (E.99) by a financier who had come originally from a large corporate enterprise. The production of the asset registers and funding of depreciation were an

attempt²³ to complete the process of changing cash based accounting to accrual accounting, part of the move to align public sector with private sector accounting. This can be seen as part of a political preference for the private sector, and/or an inevitable process in a country where the accountants are all trained within a private sector syllabus. Neither of these changes appeared to be seen as contentious but simply as "technical" accounting measures.

The third group of measures, the review of activities and funding and production of the LTFS, is rooted firmly in a neo-liberal agenda with the promotion of "modern" strategic management techniques and, above all, the generation of the private/public funding split. Despite the problems foregrounded by the RAF process and LTFS there was little critical comment on the principles behind these measures either.

The three measures of the Act are couched as technical processes and could be seen by the staff required to implement them as politically neutral. The requirements were interpreted at each council; an implementation plan was drawn up, and then followed. In the Commercial Council, as has been seen, no sooner were the technicalities of the LTFS completed than it fell over a political hurdle. Perceptions of the review of funding (the public/private split) also turned quite quickly from technical to political, as will be seen in the section on Review of Activities and Funding problems in relation to the Engineering Council on page 290, but this council had already had to deal with central government's review of its own public/private split, and the resultant loss of central government grant support to certain functions.

²³ In common with Scotland New Zealand have had several attempts at accounting for council assets in the same way as the private sector. The particular problems with valuing and depreciating donated and infrastructure assets mean that there remains a difference between public and private sector accounts.

Government Infrastructure Subsidy Withdrawals

The government had withdrawn subsidies to a number of services since 1989. These included dog dosing as discussed in Chapter 5, withdrawal of subsidised loans for building pensioner housing, withdrawal of the 50% river defence works subsidy and withdrawal of the subsidies for new water and sewerage connections. All of these were raised at interviews at the Engineering Council. They were not mentioned by the Commercial Council, in part because it did not have responsibility for river works and in part because as already explained in Chapter 6 a high proportion of the properties already had water and sewerage supplies. The government cuts were all made on the basis that these services were not the responsibility of central government but of local government and in any event had identifiable beneficiaries who should pay. Any concern about whether they had sufficient means to pay was a separate issue.

In the case of the Engineering Council's pensioner housing, this service paid for itself and made a small return to the council. The government had introduced universal means tested housing benefit after the subsidised loans had been withdrawn, changing the way that they subsidised housing for older people from a bricks and mortar based to a people based intervention. With no government subsidised loans the council was not willing to build more houses, so letting the existing ones at a rent below the market became an anomaly which benefited just a few of the potential constituency. There had been some debate in Council about disposing of the properties or at least putting the rents up to market level. Either way would have reduced the rates needed to fund other council services. The change in central government subsidy had converted the existing pensioner's cottages from being considered a council service to being thought of as a council investment.

The government subsidy for river works had been between 30 to 40 % and it was withdrawn in stages with the final tranche going in 1992. The reasoning was that the benefit was entirely to the landowners bordering the rivers and it was up to the councils to charge accordingly "... the government took the subsidy away and said well you can figure it out for yourselves people" (AJ.90). Unfortunately service expectations had been built up based on the availability of subsidy. Balancing the service expectations with the income for river rates was not possible, but whatever the financial equation following severe floods the year before and during the case study year the need for defence works had become politically desirable. An example given was \$160,000 spent on works to a river where the river rate income per annum is \$3000 (AP.142)

After the loss of the subsidy the council had decided to make up the funds by levying river rating on a rather broad interpretation of user pays:

Well that's er, this is where we display a somewhat philanthropic sort of a point of view, we we have three differentials on river rating, X class where your property adjoins a flood bank protected river, in other words full protection. Y differential, which is sort of an intermediate level of differential where your property adjoins a river where we do what they call rock protection and channel, some channel maintenance, and Z for the rest of the district. And by definition and by council policy we raise 50% of the total river funds from the Z class, so what that means is that if you are living here in (town), or living on the top of ... Hill you are helping to pay half the river maintenance funds for the people who live close to rivers. So putting a 50% subsidy into rivers. So that's been our response, it took a couple of years to get to that point but that's been our response. I suppose you could say we assessed a public good at 50%. Which is quite a high one, and it's quite unusual, I

mean you won't find another regional council that's anywhere near 50% public good. People look at us in horror... (AJ.90).

The political decision taken by this council that people who do not live next to rivers will contribute to river protection work is here described as a philanthropic point of view, a subsidy and as a public good. Each expression can be seen as a political evaluation of the accounting transaction. The latter two can also be seen as economic terms, although a subsidy can be viewed as a positive or a negative thing, depending on political stance. The public good is a matter of interpretation, this quote seen by an economist prompted the comment "what an odd way to put it – it's not a public good for hill dwellers surely?" Whereas I was comfortable with the idea that everyone in the area benefited from having protection for infrastructure and the agricultural economy, even if it was not their land or outside their own door. This is an example of the contestable nature of the public/private good split which is considered later in the chapter.

I was told that when the water, sewerage and river subsidies were withdrawn the council lost between six and eight percent of its income overnight. In order to find that funding and carry on providing and improving the service creative thinking had been required.

In 1991 we decided as far as water, potable water, that we had about 10 urban water supplies in different parts of the district. Previously there were 10 separate sets of accounts for those ten schemes. These are high pressure water supplies, potable water, high pressure to drive fire fighting, as distinct to what we call rural supplies which are low pressure. We decided and resolved to put all ten accounts together to form a water club, and, and we put in water meters over twelve months over those ten urban areas, and we charged everybody who was a member of the club a set charge per meter of water consumed with a small daily charge. The daily charge is

10 cents, ten cents a day for the privilege of having water piped to your door, fixed charge, just the standing cost of the infrastructure. And then you pay I think it was 40 cents, 42 cents for every cubic meter that you consume. So it's very, very user pays, but here's the interesting bit, we combined ten different schemes, all with different costs, we made them all pay the same amount, and when we want to do maintenance, if there's a big maintenance bill in one part of the network the total account is backing it. So you know, that sort of smoothes out major price fluctuations and price hikes, just because one scheme's blown up... So that's the advantage of a big club. And then the other advantage was we said if we as a council decide to build a new water scheme, to build a new box, if we think it's economic and necessary, and necessary for health reasons the rest of the club will kick in a one third capital subsidy which means that the new beneficiaries, the new people joining the scheme have only got to find two thirds of the money of the capital. So we make the existing club members pay something towards the new entries... (AJ.110).

As can be seen from the language used the officers of the council were rather proud of this combination of user pays and public benefit funding. All the revenue and capital costs were being met by the water users, so user pays was definitely in operation. However, by pooling all the different schemes the council had removed historical differences from the charging system and made the water account as a whole more robust and able to cope with unexpected maintenance. Where high pressure water was being extended to properties that had previously been un-serviced the cost of capital was still being mostly met by the recipient, but the benefit of earlier subsidy was being passed on from existing pool members. They in turn gained from the addition to the pool of new connections, which lowered the average age of the infrastructure while increasing the number of funders available to support maintenance work. A similar pooling

arrangement had been set up for the sewerage schemes. This rather elegant piece of accounting logic was described as a “Robin Hood arrangement” (AJ.116) and the council's role was proudly described:

So we are one of the few councils in NZ that are still building sewerage schemes and water schemes, the only reason we are doing it is because we developed this club approach. Most other councils look at it and say "Are you sure it's legal?" We say “well bugger them, we don't [care]”. Seems to be all right, it seems to work (AJ.116).

This accounting device has been developed to achieve a locally desired public service outcome, despite the perceived wishes of central government.

The introduction of metering in this context had been an essential part of the pooling process. Whereas an averaging of existing charges would have left everyone in some schemes obviously worse off than before, metering introduced an element of uncertainty about individual bills. Each scheme area would have losers and gainers, and each user had some degree of control over the amount of water used, and therefore the bill. Unlike the Commercial Council water supplies in this area were more expensive, with parts of the area having insufficient rainfall in summer. The ratepayers would have been aware of the problems with water in the area, so that would also have contributed to the relative ease with which metering was accepted. Bringing metering in had led to consumption saving of 23% partly because leaks had been located and partly because people became a little more careful about using water.

As well as water, sewerage and river rates, there was one more infrastructure item funded by separate rates; storm water.

Well just to show you another part of the mixed cocktail, ... when it comes to storm water we draw a line around 8 urban areas inside the District and we strike a special rate inside, inside that defined urban area, an urban drainage rate and that rate pays for all the storm water maintenance and all the storm water capital works inside that defined area. So it's 100% user pays and 100% funded by the beneficiaries. ... We strike another very small rate over the total balance area, which raises a very small amount of money for minor storm water works outside the eight main urban areas. It's about enough to pay for one pipe a year or something (AJ.102-104).

The various rates that this council levied had allowed it to continue improving the infrastructure for the area. The discussion about the rates showed a combination of pride in those achievements, and pride in the way the rate setting mechanism had been used to collect the resources needed to fund them. The discourse was coloured by terms used to express the way the funding came from the larger community to meet the needs of parts of the community i.e. "philanthropic point of view" and "Robin Hood arrangement". These imply a distributive arrangement, and this seems to be how these speakers regard what the council is doing. If funding was restricted to user pays the work would not be done, as the additional cost to the individual ratepayers benefiting from the flood protection or water or sewage connection would be too high except for the wealthy. By collecting flood protection rates from everyone, and subsidising the new connections from older ones more of the infrastructure funding comes as a tax related to the capital value of their property; a proxy for ability to pay. The speakers highlight both the user pays parts of their funding and the Robin Hood bits, in an awareness that these sit uncomfortably together and with a bloody minded pride that they had got away with it.

Perhaps most interesting is the use of the word "club", which seems to be an informal term; in formal documents the subsidy is said to come from the (urban water supply)

account. Other arrangements where a group of people pool their purchasing and organising power are called clubs in New Zealand, for instance most rural areas used to have a Veterinary club. So the image presented by a “club” would be familiar, acceptable, and appeal to the idea that you don’t get things for free, but also to the idea that communities work better together.

A rates bill in the Engineering Council has a lot of lines. A property owner will be due to pay general rates based on capital value plus a river rate and a storm water rate based on land value and differentials depending on where the property is situated. The bill may also have lines for a water standing charge, a sewerage pan charge, water consumption bill and repaying water and / or sewerage connection charges. (Ratepayers with new water or sewerage connections paid for their 66% share of the cost of capital works over a period of years.) A mixed cocktail seems a reasonable description, although the range of different charges does not end there. While the arrangements for infrastructure funding were partially distributive, the council had also just changed part of its rates bill to a set amount per rateable entity, using a regressive tax; the uniform annual general charge.

Uniform Annual General Charge

The area of the Engineering Council had a growing population and although there were regular three year revaluations of the rating base some property values were rising more rapidly than others. The last valuation had led to an average increase of 29%, but in one area the average had been 49% and for some coastal locations the valuation “probably went up 100%” (AO.44).

For general rates the council had what was described as a “pure capital value system, with no differentials and no flattening or anything” (AO.44). With the exception of the water,

river, sewerage and storm water charges mentioned earlier all the rest of the council's general income was raised on a cent on the dollar of capital value rate. The council had set no differential rates between urban and rural properties, or commercial and residential properties, as was common elsewhere.

This meant that different jumps in valuation led directly to different jumps in rates, but with no change in service. This seemed to be unreasonable charging particularly given the emphasis on fairness in the Amendment Act. So the council brought in, for the first time, a uniform annual charge to take the edge off the changes. "so what we did to flatten it both ends, was to bring in UAGC (uniform annual general charge)" (AO.44). This flattening increased the total payable by those in the lowest value properties and decreased the total payable for those in the highest value.

The idea of a UAGC seems to have come from a particular senior manager, although its provenance was a bit elusive. One of the accountants said he was not sure where it had come from but it seemed to be this individual's "baby". When the "parent" was asked to explain why a UAC was used, it was justified on several counts. It was "one of the tools in the rating toolbox" (AJ.72); it resulted in a better tax than using differentials; most other councils used more complex system in comparison to the Engineering Council; the council had to be seen to be addressing the problem; and it answered in part the concerns of the rural complaints lobby (which had recently become more vociferous as was discussed in the section on NZ2 in Chapter 4). The UAGC was also seen as a fair charge for services that were used by households and a way of linking payment to usage for council services:

... it was that sort of feeling that there are some services, I used the library as an example and that was the one that we used for political reasons, some sort of

services could perhaps more equitably be paid on a fixed charge per household rather than a er rates drawn on the capital value. You know for instance some of the properties are just forests, and trees don't read too many books (AJ.78).

This form of arboreal cannibalism had also been used to help justify the amount of the UAGC, on the (somewhat approximate) basis that the \$100 that was set covered half the community services and libraries costs. These services had been used as examples of the sorts of areas which are more closely linked to people rather than property, and the idea was pushed that the UAGC was a sort of rate moderator. At a level of \$100 the UAGC represented about 8% of general rate take and this "had the effect of lowering the very very high ratepayer's rates by almost 8% ..." (AJ.82).

These high ratepayers included ECNZ, the electrical generating company, which was having legal arguments with most of the rural councils in the country at the time about their rates bills. The company was using the user pays legislation in the Amendment Act to pressure councils to reduce its rates, on the basis that most of its installations were neither users nor exacerbators. The sheer size of the company in comparison to the individual councils was being used to bulldoze through its point of view, and by carefully targeting the case against each council it had avoided the possibility the councils could mount a joint defence. Apart from setting aside funds for a potential legal case there was nothing else that the council felt it could do.

The UAGC had not been enough to assuage ECNZ, nor completely mollify the rural lobby. The council had to agree to one further concession, which was to make the UAGC payable not on each property, but on each property owner, which cut rates bills for farmers with more than one farm by \$100 for each extra farm, as well as reducing the ECNZ bill. Even then, there was a rates march on the council offices, orchestrated by the

group standing on the rural, minimalist government platform that got elected later in the year.

The rates bill had thus got even longer, with a line for the UAGC. Each of the elements of the bill was related to particular services: the infrastructure rates and charges explicitly to the Water supply etc., the UAGC by promotion to the Community and Library Services, and the general rate by default to everything else. The additional lines reflected pragmatic accounting solutions to perceived service and political problems: to expand the water supply charge existing users as well as newly serviced properties, to raise sufficient money to contain floods rate everyone, to placate the larger rural property owners and ECNZ bring in a flat rate charge.

Review of Activities and Funding problems

The Amendment Act required councils to consider the funding for their activities. One of the principles that had to be considered was that costs “should be recovered from persons ... in a manner that matches the extent to which the direct benefits of that expenditure accrues to those persons” (Local Government Amendment (No. 3) Act 1996 122F(c)). The act stipulated three types of expenditure which were not covered by this principle: that which is independent of the number of people who benefit; that where no individuals or groups can be identified as beneficiaries; and that where the benefit accrues to the community generally. So for each activity councils had to decide on a private / public funding split to reflect what portion could be identified as benefiting individuals and which did not. This was the mechanism prompting local authorities to apply the “user pays” and “exacerbator pays” principles which central government had been extolling as a basis for all public services. There was to be a second stage which considered equity and fairness, and a third stage which considered practicality and the time frame for

implementation of any changes. The councils referred to this process as the review of activities and funding (RAF).

As the chapter on overheads explained the government had decided dog dosing was for the benefit of the farmers who were exporting meat so had withdrawn completely from the service provision. Where councils decided that the dog service was mainly of benefit to the dog owners they continued to provide a service but changed the funding, so that a greater proportion was paid by the owners. Other services with identifiable beneficiaries also had their funding changed. The changes were not large, but seemed to be all in one direction. The review has to be repeated at least every three years and so could lead to a series of small changes. One accountant who approved of the principle described it as “inching people” towards user funding (M.101). However she had reservations about the process, considering that there was a temptation to take an easy route once a beneficiary had been found and “slap” them with the full cost (M.117). The way that the library service was used to exemplify and justify the UAGC in the engineering based council has already been discussed. Charges for the library service were a fruitful area for discussion, and not just with the librarians, other managers and accountants also used the library service as an example to describe the public / private funding split.

If there was a one to one relationship between the user and the service then the service would get a user pays situation. Classic thing library book, I go and borrow a library book this afternoon I'm the only person who benefits from that, shouldn't I pay for the full cost of the library book which would be something like about ten dollars or twenty dollars (E.98).

There seems to be a perceived simplicity about the library service that allows it to be proffered as a common basis of understanding. Whether this extends to a common

understanding of the public / private split, and the charges that arise therefrom is another matter as illustrated by a comparison of the RAF findings for libraries in the two New Zealand case study councils.

As part of their Review of Funding the Commercial Council had decided on an initial split for libraries of 30% private beneficiaries and 70% the council area as a whole. The LTFS had identified that existing funding was coming 6% from charges and 94% from rates, and noted that “there is an apparent willingness for the community to pay for this service through rates.” The council did not wish to exclude people from the service because they could not afford to pay so used the second part of the review of activities and funding process (introduction of equity and fairness) to set a split of 8% private and 92% public for the Draft Annual Plan. The 8% from user charges was revised down to 7% after public submissions to the Plan (Commercial Council, 1998, page 48).

The Engineering Council identified a libraries service existing private/public funding split of 15:85 and stated in the Draft Annual Plan that it aimed to move to 25:75 over the next ten years. This produced a big response, and the majority of the 120 submissions by the public on library funding were “to do with the issue of equitable funding in the long term” (Engineering Council, 1998, page A6). As a result the council reduced the amount of funding to be found from the public through user charges and fines by year ten to 20%.

| | Commercial Council | | Engineering Council | |
|--|--------------------|---------|---------------------|---------|
| | Public | Private | Public | Private |
| Existing | 6 | 94 | 15 | 85 |
| First stage RAF Proposal | 30 | 70 | 25 | 75 |
| Draft proposals after equity & fairness review | 8 | 92 | 25 | 75 |
| After consultation | 7 | 93 | 20 | 80 |

Table 10 Library Service Public / Private percentage splits

In both councils the proportion of funding coming from the users of the service, (the private beneficiaries) was increased for the draft LTFS. And in both councils there was considerable public outcry about rises in user charges, as a result of which the LTFS 10 year aim for private contributions was revised downwards, (the increase from the existing charges was halved). Nothing that strange there, councils like to bring in more income and whenever they propose to raise charges, the people who will have to pay the increase and their supporters complain. However, two points can be taken from the library service Review of Activity and Funding in these councils. Firstly, the two councils have different proposed splits between public and private funding. If there had been some sort of context-free “ideal” split for the library service then the draft splits proposed would have been more similar. The second point is that the councils underwent an extensive analysis of service (see appendix X) to produce the considered splits proposed in the drafts. Yet both were then willing to change the figures arrived at to reflect public consultation, or deflect public criticism. Examination of the LTFS of four other New Zealand councils reveals a range of splits for their library services, none of which were the same. It would appear that there is no commonly accepted split, and what each council ended up with had more to do with where it started from than any identification of a “correct” figure. This was recognised by one of the interviewees who described it as "very arbitrary" (AO.153).

That there should be such a thing as a correct split is not implied in the Act, which states that “it shall be the responsibility of each local authority to make judgements about the ways in which the principles ... are to be complied with...” (LGA (No3) Act 1996 121I (3)). However comments from some of the officers involved in the RAF process betray an underlying belief that the process will lead to identifying the correct split, rather than building the split: that it exists independently and has to be discovered rather than negotiated to the least dissatisfaction of the parties concerned.

Going back to the loss of the infrastructure grants and the ways that the Engineering Council had adapted the rates system to compensate, the result had been influenced by what was possible, rather than by a strictly applied user pays principle.

But basically the urban drainage, the storm water model is 100% user pays, the river model is 50% user pays, don't ask me why ... (AJ.102-104).

This interviewee had been the moving force behind the adaptations of the rates system for storm water and river protection works, yet even he seems to be looking for some correct answer, or consistency, or perhaps a principle that would justify the council's decisions when compared to each other.

Although the Act specifies principles rather than processes each council has created a structure for carrying out the RAF. Although it can be changed, this structure, or one like it, will probably be used again when the three yearly reviews come up, and it seems likely that each use will confirm its credibility as a mechanism, and create and promote the possibility that there should be a correct outcome to the RAF process.

The second and third steps in the RAF process allowed councils to reflect equity and practicality. I was told these were afterthoughts to the original bill, and were described as watering down escape clauses by one officer who commented that "If the Ministry of Commerce, Treasury had had their way there wouldn't have been much in the way of escape clauses", only a brief transition period (AJ.30). If Treasury did indeed want the RAF process to be an identification of private / public split and then a quick move to full implementation does this imply that they too thought there was a "correct" split for each service? The implication here was that the original split was purer, and that the second and third stages diluted the economic principles which gave "better" figures. The same officer went on to describe these two stages as allowing "political expediency":

So as I say the councils really just backed up to any number that suited them. Very very few councils took any courageous decisions out of it (AJ.44-46).

It would seem that this interviewee felt that courageous decisions are ones made on an objective "economic" basis that have not been watered down to suit the needs of the politicians. But the extreme range of apparently satisfactory public / private splits for library services, from 100:1 to 1:100, and even the closer difference between the two case studies betrays the political nature of the results of every stage of the process. There is confusion here between economics and politics being articulated by accounting techniques.

Some interviewees were aware that they were seeking an elusive and possibly non-existent truth.

... we did spend a lot of time over it, but I mean, by comparison we may have skidded over it a bit lightly, but then in a way probably, that's the way it should

have been dealt with, I mean, you tell me, what's the public good in a library (AO.153)?

As he spoke this speaker was drawing out the conclusion that whatever figure was arrived at was going to be a justified guess, and so the process did not merit expenditure of a lot of energy. A correct public / private split seems even more problematic than correct cost. People appear to believe that both exist but neither are concepts that can be satisfactorily translated into reality.

As a result of the Act other services were also seeing more specific charges to satisfy the beneficiary contributions of the public / private split. Rubbish bags in both councils had originally been issued free of charge. Only official bags were uplifted by the collection service, and in one council the first 52 bags a year were free and the rest paid for, and the other council now charged for all its bags. This form of charging combined collecting a contribution from the users of the service with a higher contribution from higher users, which could be seen as a direct charge for the additional waste disposal that would be necessary (user or even exacerbator pays). Alternatively the additional charge for bags could be seen as a form of poll tax on all the members of a family, on the basis that the larger the family, the more rubbish generated. As a behaviour modifier, the charging system could be seen as an incentive to re-cycle more although the flip side could be an increase in fly tipping.

One of the effects of the RAF may have been to promote a broader consideration of charging mechanisms and consequential changes in behaviour. Conversely, these wider issues may confuse the picture, at the very least by being used as additional justifications for following (or not following) a particular course of action.

The library, dogs and refuse collection service charges were not the only areas where there had been public feedback during the consultation process. For instance the Act guided councils to consider splits between public and private interests as percentages, and one council found that this had translated into unacceptably high dollar increases for individual team members using games pitches.

Several issues like this were raised, that illustrate what were seen as problems with how the mechanics of the process were applied. It would seem that interviewees had accepted the correctness of the principle that users and exacerbators should pay their fair share and that there was such a thing as a fair share. The problems were seen as arising from an imperfect process (percentages rather than actual figures for instance) which had failed to convince the public. But the RAF process is a series of political interpretations of economic and (in stage three) accounting questions. Each of the commentators interpreted user pays in the context of their own attitudes towards services and the public sector in general. Returning, yet again, to the library service, another accountant used it to illustrate her belief that the basic civic provision should be of books, and that any “gold plated” service such as web access or CD-Roms should be paid for by the beneficiaries.

In New Zealand the user pays concept has been advanced by the Treasury. It has been used as a basis and justification for much of the commercialisation of public services.

This appears to be accepted to some extent by most people, for instance:

Along with the way that the market has gone here in this country it's that we're being into more user charges, fair user charges (AO.40).

Fair is a common New Zealand word, used in a number of colloquial phrases such as “fair go”, “fair dos”, or “fair cow” (Green, 1998). As such it covers a broad range of meaning,

but seems to be used in these quotes in the sense of being fair to everyone, and it is in that sense that user pays has claimed it. From the interviews it would seem that user pays has two big advantages going for it; an appeal to fairness, and an extremely vague definition.

The Act links user pays with a requirement for long term financial planning, which gives it credibility by association, as even those who were sceptical about the RAF process could see advantages to having a look at where the council is headed financially:

I think er, in retrospect it was a good notion to go through the exercise to try and estimate what your community will need in a global sentence, and then a bit more specifically the next ten years into, into, it's superannuation stuff really, putting some money aside, earmarking it, giving some indication to the community what needs to be done. Otherwise yeah, you suddenly have big infrastructural developments and one generation has to pay for those, it all has to, it all happens at once. So it was a sensible move (AO.153).

Most of the recommendations coming out of the RAF process were to increase income from users, or to leave matters as they stood; in no instance, in the cases examined, was there a recommendation that user charges be reduced or stopped. It would seem that not only do individuals interpret the user pays concept in such a way that it shores up their view of public service, but also that councils have used the concept to justify increases in charges.

A lot of the comment on changes in charges was in the context of reaction to public pressures. Being funded by the voters of the area means that the New Zealand councils are sensitive to public reaction to charges and taxes. In the Engineering Council the rates march was interpreted in part as people complaining as usual when charges hit them:

Local government has come so far in the last ten years, and we've gone out of our way to I mean I set up a publicity committee and we advertise and we have little newspapers which you've seen and all that kind of stuff, but still most people couldn't give a tuppenny stuff until it actually gets to them (AO.58).

The same interviewee later credited the increased contact and consultations with the ratepayers with generating higher expectations of, and thus potentially greater disappointments with the council. These two opinions can be seen as mutually contradictory, but this is not so. The public could be more aware of the council's activities than in the past, with heightened expectations, but still only reacting where service changes or the lack of them threaten them personally.

There was a revealing comment on the public reaction to the charging regime proposed as part of the LTFS. The interviewee said that although public sector reform had been going on for 15 years that now:

... there's a question mark, people are saying we are no better off, and certainly the kind of last twelve months, certainly in [this] area, we had a real downturn. For the first time every core economy was down. And people are really hurting, I mean people are being foreclosed in the bank I mean people don't know what to do with their land, it's good land, what [do] I do I grow to make some money. And so there was kind of a, national, er, dis-spirit er in which the feeling that's manifested here, and people are angry with government and we are first off their anger, they are angry with local government. But if you had a real buoyant economy I just don't, I think they would probably pay up, mostly and not been quite so aggressive about it. (AO.50).

So people are perceived to always moan about council charges when it affects them, they moan more when they have seen a consultation process, and yet more when times are hard, not least because local government is a handy whipping boy for perceived general government and economy shortcomings. Because the voters fund the councils, there is a political imperative for councils (meaning council officers) to find funding systems that minimise the electoral damage. Hence the creation of the UAGC in the Engineering Council, the proposal to make Water a LATE in the Commercial Council and the calculation of the user pays percentages throughout New Zealand. All of these examples (even with the “watering down” of user pays) result in more of the council’s funding coming from specific charges and less from general rates. The changes in accounting are being used to satisfy political considerations.

Taxes versus Charges

There are dangers in this erosion of tax funding. This was illustrated by a tongue in cheek letter received by a councillor from a friend which examined all parts of the rates bill and come to the conclusion that he was only going to pay 51 cents in the dollar of the bill because that was the cost of the services that he was using. (AO.62) The continued extension of specific funding of services, whether by charges or by specific rates, leaves a smaller and smaller part of the council funding available for the remaining services, and reduces the choices available to the council about how it best serves its community. The risks this entails were appreciated by the Engineering Council leaders (both councillors and officers):

So you have this debate, and of course you have got to be careful that you don't go so far that it becomes so user charges you actually add up everything there becomes

no fat in the middle, there some things that we should pay for and be comfortable about paying for in the sense of community (AO.40)

This is an interesting use of the term “fat” which would normally be heard associated in a derisory way with budgets which had more money in them than was strictly necessary to perform the service. Perhaps, as a leading decision maker in this council, he saw this money as available to be directed to services that the public would not support if specific funding had to be raised. In the Engineering Council, where so much of the funding was already derived from service specific sources, the tax nature of rating was well appreciated:

I can argue both sides of the story, I mean, when it suits me I can argue that rates are a tax, and there is no guarantee that you will receive any degree or level of service for paying X dollars and furthermore if your revaluation of your property doubles, ... then there's a pretty good chance your rates will double and when you come to me and say well what do I get for paying double my rates, what extra services do I get, my answer is "Nothing", nothing, there is no given relationship between what you pay and what level of service you receive, that's a definition of tax. It's more an ability to pay argument than a what you get for it (AJ.80).

Any continued movement towards service related funding was seen as a problem:

... you asked me why I wanted to be involved in local government, it's a sense of community, if you are just going to just only pay to get that back then you are losing a kind of ethereal um, kind of um, atmospheric feel about community and your neighbours and er, community health well being, all that kind of stuff. It's a, there's these underlying tensions in this whole thing (AO.42).

Like many of the interviewees this councillor identified very strongly with the public sector institution. He felt that the movement towards service specific funding was a threat to his concept of the essence of local government. This movement is coming, at least in part, from the electorate who have been encouraged by central government to see services in this way and now appear to see local government as a collection of services which they might or might not use rather than a holistic agency for the good of the community. Each new specific charge a council uses encourages the electorate in this view.

A charge to users can be read in various ways; as a reasonable exchange for a service received, as a double impost on a ratepayer, as a disadvantage to the less wealthy. The rates can similarly be read in several ways: as a contribution to the community according to means, as a subsidy for services, as an uncontrollable charge for unrequested services. These multiple interpretations were illustrated by the various interviewees, sometimes by the same person, sometimes in the same paragraph. Some of this apparent contradiction appeared to reflect a genuinely ambivalent attitude towards charges. Some perhaps was a result of interviewees wishing to appear open to “modern” ideas or simply open minded. The various accounting calculations which resulted from the RAF brought the issue of charges and rates to the fore, but as ethical and political questions rather than accounting ones.

The extent to which a council chooses to fund itself from general rates or from specific rates or charges can be seen as the council’s reading of the desires of their electorate. The move to charges can also be seen as a means of protecting the service. Where a service is singled out for criticism, as the library was in the Engineering Council, moving from a general tax to a seemingly more focussed charge, (the UGAC) can deflect the complaint. The use of metered usage charges for the Water and Sewerage services in the Engineering

Council (and to a lesser extent the use of the Water Rate in the Commercial Council) meant that ratepayers could be assured that only users of the service were paying for it. But it also meant that the water service was assured of that stream of income, which could not be diverted into other services.

Although the Amendment Act has stimulated consideration of funding for specific activities this is an on-going process, which has led to the variation of charges which formed the starting point, (and to some degree the finishing point as well) for the RAF process. The often quoted Christchurch City Council collects most of their income as a tax, and uses it to fund services as they see fit. In part as an explanation of how that council managed to get away with this without complaints from the electorate I was told that their Electricity Company brought in large profits and that this surplus had allowed the council to provide what the electorate wanted.

In contrast the Engineering Council had a rural constituency in its electorate who were aggrieved on several counts. Not all of these were to do with funding, one of the main concerns had been about the Resource Management Plan for the area, which had been presented by the council the previous year under the Resource Management Act. There had been discontent nationally but there were specific problems in this area where the rural landowners resented what they perceived as interference in what they could do with their own land.

Over half of the electorate were seen as being rural supporters of a minimalist council. The slew of specific rates and charging mechanisms that were devised by the officers of this council, and specifically introducing the UAGC, could be interpreted as efforts to maintain electoral confidence in the councillors by relating improving services to the

charges that paid for them. As such those efforts failed with the election of the “more rural” council. Another interpretation could be that the specific funding mechanisms created some certainty for each of the services that they funded. The certainty was both for the public, who knew that their storm water rate, for instance, was spent on storm water, and for the asset managers who could probably rely on it being available for storm water works.

The Commercial Council could be seen as somewhere between Christchurch and the Engineering Council. The main concern of the councillors was that the electorate would not support the future funding identified as needed by the LTFS. Their response was to bring in consultants, whose recommendations were to reduce the total amount needed and to use different funding mechanisms, principally for water services, to reduce the headline rates figure. Apart from the water business unit there was to be no certainty about future funding for any part of the council services.

Main Issues

The concern of this chapter is with a move away from general rates towards specific charges. One effect is to define particular services within the council by their funding, and thus reinforce the perception that the services function independently of one another. This applies even in the examples given of redistributive taxation for water, sewerage and river protection in the Engineering Council: the charges may not be levied solely and directly on users, but they are specifically for those services. Looking at the service funding on a service by service basis, as encouraged by the Act, reduces the possibility of looking at the organisation in its entirety and therefore removes from consideration any benefits of the organisation as a whole.

The funding changes described included ones that pre-dated the 1996 legislation as well as ones that had been prompted by the Act. However a user pays perspective was given in all funding discussions, with earlier choices being assigned user pays qualities.

Underlying all the user pays rhetoric is the assumption that the cost to be met can be determined. That is, accounting will be able to produce a cost that can then be split between public and private funding so the users of a service will pay a “correct” amount. User pays is an economic and political concept based on an accounting construct.

How were people involved in local government using accounting and to what end? Other consequences of these accounting processes - the centrifugal council -voters or consumers

What the 1996 Act had done was require councils to use an accounting framework for the council’s plans. This meant that decisions and desires based on political and social considerations were compiled and the total costs translated into likely future rates. The consequent 45% rise over ten years predicted by the LTFS in the Commercial Council was deemed a problem by the councillors. The solution was to employ accountants as consultants, who proposed accounting solutions to repair the damage that this use of accounting had inflicted. In the Engineering Council the old council had used service specific rates to extend and maintain infrastructure. To please the rural lobby they had reduced certain specific charges after consultation and introduced the UAGC. The UAGC can also be interpreted as a protective measure for services expected to get little sympathy from the new council.

These interpretations are focussed on the question of who pays for council services; the population in general or the users, and in turn this question boils down to whether the

council services are regarded as a community thing or the same as commercial services, and whether the population is a community or a collection of service consumers. These questions concern the essence of the relationship between a council and its electorate. They are not accounting questions, but they arose from accounting actions.

Each differentiated income source supports the differentiation of the service it pays for from the rest of the council. Having any differentiated charge encourages ratepayers to consider the rates bill as a collection of charges, and leads to the approach displayed earlier (albeit humorously) that only that part of the rate that relates to services used by the ratepayer is due to be paid. If the income source is user charges then those who do not use or pay for the service may have no concern with it as part of the council. So why should that service be part of the electoral considerations for that individual? If enough parts of the council are thus distanced from the voter then why bother to vote at all? This is not to suggest that any lack of interest in local politics is solely a result of user pays charges and specific rates, although the former especially would seem to encourage an engagement with the service as a consumer rather than as a voter. This is an accounting aspect of the considerable and growing academic concern with consumerism and the public services (Needham, 2003; Smith et al., 2003). The replacement of an electoral transaction - I give you my vote and taxes and you give me a range of services, some of which I may not need - with a commercial one - I pay a charge and you give me what I pay for - creates some interesting questions for further research. For instance; do councils with high general rates funding get a higher turnout at election time than councils with high specific charge funding?

Each of the changes from a general rate to a specific rate or charge discussed earlier emphasises the separateness of the services that the council provides and erodes the basis

of general rates as a tax. The 1996 Act was imposed by central government on local government as part of a national move towards NPM and specifically user-pays in the public sector. The accounting can be interpreted as being intended to achieve a political aim. But the way that the Act was used in the case study councils highlighted other problems; the political change towards more rural concerns in the Engineering Council and the unfocussed plans for the future in the Commercial Council. In both cases accounting solutions were sought for the non-accounting problems that the original accounting had revealed. The RAF process was a particular accounting which gave a new visibility to problems within the councils.

The Engineering Council used accounting to defend its services against electoral reluctance to fund and central government policy changes. The Commercial Council's consultants used accounting to propose a profit making LATE which would change rated water users to over-charged customers. Unlooked-for outcomes included a move in public attitude from rate payer to charge payer, and possibly elector to consumer and an increased perception of the council as a collection of separable services.

What was the role of the accounting profession in constructing the accounting that was being done? – passive figure providers

The role of the accounting profession in the issues considered in this chapter is concerned with operationalising the political decisions taken by central and local government. In neither of the councils studied was the lead in the RAF process taken by finance staff. One council used its strategy staff, the other employed a consultant economist, and both had heavy involvement from the chief executives. It is easy to imagine a similar Act in Scotland would lead to CIPFA participation in the consultation process before the bill was

drafted and the production of CIPFA guidance on implementation of the legislation. In the absence of a dedicated public sector accounting body wanting to influence and control financial aspects of the public realm the New Zealand councils complied with the act through management rather than finance. The accounting staff provided the figures, wrote the borrowing and investment policy and sent out the bills, but the decisions about the public/private split and LTFS were made by the chief executives and councillors. The Act is couched in economic terms about benefit, beneficiaries and community, but the decisions taken were political. And as has been mentioned, when the political process produced an unacceptable outcome a firm of accountants were contracted to find an acceptable result. Were these big private sector accountants seen as providing the professionalised approach that council staff lacked? If so this could possibly be a result of accounting not having a public sector accounting advocate in New Zealand.

Chapter 9 Top Slicing and Shielding Budgets

The last chapter considered the issue of tax versus charge in the New Zealand councils, and sets out the idea that in one council service champions are using a move from general rates to consumer charges to sustain the political will for a particular standard of service. In Scotland there is not the same legal freedom for local authorities to set charges, but central government is using a similar manipulation²⁴ of income by converting general revenue support grant into specific grant. A range of mechanisms is being used, often in combination, including straight per capita allocations of specific grants, ring-fenced grants and bid funds, where the funding is accessed by application, often competitively. These types of grant are deducted from the total amount available, and then the allocation formula for distribution to councils is applied to the remainder. This “top slicing” of grant funding is ostensibly used to substantialise support for particular programmes of service delivery. The first part of this chapter explores the perceptions of the Scottish case study councils about the use of top slicing.

In comparison to the New Zealand councils, Scottish local authorities have very little influence over their income, most of which comes from central government. Service champions within councils do not have income choices as a tool to support services but they are beginning to see that by externalising and contractualising services, that is by manipulating expenditure, they may provide an instrumental shelter from political pressures on funding for their service. Although New Zealand councils have also been externalising some of their services this argument was not advanced by any of the interviewees. The effects of externalisation of expenditure and the way it might be used

²⁴ I am using the word “manipulation” in this chapter in the sense to “manage to one’s own advantage”, but not “especially unfairly or unscrupulously” (Concise Oxford Dictionary, 1990). I could find no other word that combined the sense of tool using with personal intent that manipulation conveys, but I am not using the word in a pejorative way.

to protect budgets from the vicissitudes of political life is considered in the second part of this chapter; Manipulation of Expenditure in Scotland. The last part of the chapter revisits the three key questions in the context of income and expenditure manipulation in the Scottish case studies.

Manipulation of Income in Scotland

The new Scottish Parliament was brought into being in 1998. Two aspects of the elected body were of particular interest to local authorities: many of the elected MSPs had a background in council politics and most of the cabinet were from the Labour Party as were the majority in most of the councils. These apparent common interests have not prevented local government politicians from being critical of the Scottish Executive, but this has been tempered with statements of co-operation. A press release from the Convention of Scottish Local Authorities (COSLA) in 2001 (on the eve of submitting their evidence to the inquiry of Parliament's Local Government Committee into local government finance) stated "There is a lot of common ground and agreement between the Scottish Executive and local government on what needs to be done", before going on to criticise the total amount and distribution of funding from the Executive to councils.

The new Executive may not have wished to be seen to be in conflict with the councils, but nevertheless wanted to establish its own priorities on all tiers of government. Service priorities were given funding in addition to that which was distributed via the council's main funding. The main funding for local authorities was, (and is still), given as a block grant, calculated by a collection of formulae that are built from population statistics and area characteristics for the various services that had been refined in consultation with the local authorities over a period of years. Although this calculation produced a series of

notional figures, the grant related expenditure (GAE) for the spend on each of the services, the grant was issued as a single amount, and not tied to the GAEs.

Funding additional to the main grant came with conditions. Many of the additional monies were linked to government initiatives and had to be spent on particular aspects of services, for instance not just the homeless service, but accommodation for the young homeless. Conditions like this attached to expenditure were described as “ring-fencing” the grant money; the money was fenced off from other uses. Some monies were less circumscribed in their use, and could be used for what the council saw as assisting a particular Scottish Executive policy, for instance Social Inclusion. The Scottish Executive could then describe these initiatives as using local knowledge, and not being “one-size-fits-all”²⁵. Some monies were not allocated across all Scottish local authorities, but were set up as “bid funds” for a particular initiative. These were competed for by the councils, who, having identified a need for more money for that use in their area put together a costed plan as a bid, couched in the same language as the Scottish Executive announcement of the initiative. Their bid for that sum then competed with bids from other councils. After consideration of the bids the Executive decided which ones to support and the fortunate councils were informed how much funding they would be given to achieve the plans in their bid.

The case study interviewees recognised that the additional funding was intended for the Executive’s priorities. An accountant described these initiatives as “part of the government's agenda” and the grants as “purely for specific initiatives that are the current

²⁵ “One-size-fits-all” started out as a criticism aimed from various quarters at the Executive when directions have been seen as being inappropriate for some of the constituency at which they are aimed.

The denial of one-size-fits-all has been extensively adopted by the Executive in circulars and other communications to promote what is claimed as a non-directive approach.

flavour of the Executive” (AR.7). By using specific grants to fund particular projects the Executive could be seen to be putting its money where its mouth was. The benefit of this for Scottish Executive public relations is clear to local authority staff:

. . . what it does it allows them to say well we are putting extra money in education, ...and politicians often have a vested interest in not being transparent in what's going on it's very much about you know, we are going to announce this we are going to announce that, we are going to announce the next thing, so, I mean the public well, understandably they are not going to know whether or you know, if a finance minister stands up and says I am putting an extra 10 million into education, it's a lot of money, and a lot of money, I mean it's nothing across Scotland, but you know it's a big number if it's in the Daily Record (Y.96).

The extent to which some, or any, of the money represented by these funds was additional to the existing central government support for councils has been a matter for debate. COSLA's president was “concerned about announcements which often relate to recycled monies rather than new money” (COSLA, 2001). As more and more of the money available to councils was linked to Executive sponsored initiatives less seemed to be available for the remainder of councils' activities. COSLA estimated in 2001 that the proportion of central government funds that would be ring-fenced was 30%. Where initiative monies were resourcing new services and facilities which were side by side with apparently under-funded services the system seemed particularly confused:

... we even had the nonsense of it last year in setting the budget, extra money from the Excellence fund for classroom assistants. Couldn't do anything else with it, ring-fenced, we had to report on it, had to say we were doing that, at the same time because there is not enough money in the overall settlement we are reducing the teacher's staffing standard. Absolutely crazy (Y.96).

In addition to these concerns relating to the loss of decision making power over how revenues are used the amount of work that was required from councils in respect of specific grants was complained about by everyone who discussed them. By making the financing for many of these projects bid funds it could be argued that the money only went to those councils who would really use it for what was intended, but from the point of view of the council officers bid funds create a lot of work which could turn out to have been wasted:

I think this challenge funding creates a lot of work. Whereas previously you would have got your allocations on your capital programme or something like that, and then the council would decide how to spend the capital programme, now there's got to be a lot of work put into producing a bid for the challenge funding money which you won't necessarily get (U.64).

This quote is from an accountant in the Agreement Council, which had bid for a lot of initiative funds. Officers considered this particular council to be progressive and innovative and trying to get the most out of central government policies. But they also pointed out that this meant additional work for already heavily laden staff disproportional to the funds that might be gained. In comparison to the other three case studies this council was remarkable for the network of interdepartmental contacts. In part the network was because of the partially devolved central services, and in part, perhaps, because bidding required the involvement of several disciplines. The work-load was not just in relation to bid preparation, there were also reports to be written on the outcomes of the additional funding, and either accounting for the use of the money or claiming payment:

... and then in monitoring these kind of projects, when some of the monies which come, which are ring-fenced, like education Excellence funds an example, I mean

the bureaucracy behind that is just ridiculous, so we've got, ... got maybe one, one and a half million Excellence fund monies, er, out of a ... budget of maybe 50 million, but that one and a half million has got maybe six or eight strands, and there's reports to go on them, so... they have to put in the bid to get the money in, administer it, er, monitor it, respond to requests for information... (Y.96).

... pre-schoolers is a classic one, whereby you've got a rural funds, you've got a development grant for under-fours, a development grant for under-threes, you get um, Sure Start which is nought to three(AR.27).

The multiple “strands” within the strategic initiatives, and the multiplicity of initiatives concentrated in certain areas made for confusion for the staff. Expenditure had to be sourced from one of the strands or funds or the main budget, or some combination. Combinations were needed if say a particular improvement was to be done in several schools, and none of the funds had sufficient money for all of it, and the conditions attached to the funds meant that improvements brought about by that money had to be spread over a range of schools. By putting in 50% from one fund, 30% from another and squeezing the remainder from the normal budget, sufficient money might be found to give five schools the improvement. So as well as constructing the bid and rendering the claim there was additional work in recording the way such funds are used.

Problems were not seen as limited to the extra bureaucracy and work load, but also that the Executive were not maintaining proper stewardship over the funds. The impression of interviewees was that some of the bureaucracy achieved nothing, and in the rush for the new projects the wheel was being reinvented, and badly at that; for instance asking for claims for expenditure to the year end of 31st of March to be submitted by 28th February. This "making the rules up as they go along" (AR.9/10) was well illustrated by one

accountant who refused to send claim information until the Executive Department concerned had decided on a format for the claim. There were also multiple requests from different parts of the Executive for the same information, in slightly different formats.

The civil servants at the Scottish Executive had given the impression of being overwhelmed by the amount of tasks that the new Scottish Parliament had generated, with an initial rush out to councils and an over-enthusiastic catching up with the bureaucratic accountability. From the point of view of the council the interviewees' concerns were essentially about two things. One was the council resources wasted, which led to one Finance Manager writing to the Executive exhorting them to "get your act together here" (Y.96), and the other was the potential for councils and council staff to be left exposed to allegations of inappropriate use of funds as there was no audit in place and an inadequate paper trail.

The Executive use of specific grant and bid funds as carrots to lure councils towards what they view as the appropriate direction (and any reduction of funds available for other services as sticks to guide the councils away from non-priority areas) can lead to concern about the potential for distortion of the council's policies, and possible compromise of systems designed to achieve best value. This is very obvious with initiatives where additional capital consent has been made available by central government during the year for specific service areas and there is seen to be a problem spending it appropriately before the end of the year. An instance was given of additional funding for building nursery provision for children under 5. In order to use the grant the carry forwards on the whole of the councils capital programme had to be "juggled with" (AR.27). A bigger problem presents itself if the bid figures have been put together without a clear idea of what will be needed to be done with the money if it is granted:

... in the context of diminishing resources people do chase the money, and sometimes they chase it almost as a knee-jerk reaction. Um, sometimes the worst thing that can possibly happen is that you actually get the money, because then you have to deliver it, and then you realise that the quick and dirty project bid you've put in isn't enough, but you've committed yourself to do it ... (AE.68).

If control of income is not in the Councillors hands, and 80% of Scottish council's income is decided by the Executive, and has been since the demise of the Community Charge²⁶, then a lot of what is done becomes the art of the possible rather than any more soundly based strategy. Councils have had to learn to play the system in order to achieve as much as possible of what they want whilst operating within the income constraints laid down formerly by the then Scottish Office and now by the Executive.

Making the project fit the available finance, and juggling the finance to fit the project is fairly normal work for accountants and other local government officers, but project-led financing can lead to some unexpected results as described by a policy officer in this apocryphal sounding tale:

.. at a time when there was an awful lot of money [available from Europe], and the way to get the councillors to approve spending revenue and capital budget was to say there was European money for it, and what that did was it completely skewed the council's policy and spending priorities, and I remember being in a meeting with the politicians, we were arguing about this, and the leader of the council stood up and said look this is, made that point, said "this is ludicrous you know, there might be money available, but you don't want to do the thing the money is for, it takes up time," and he pointed at one councillor, what he actually said, I still remember what

²⁶ Prior to the Community Charge (Poll Tax) a larger proportion of funding was raised from rates, but the Scottish Office exercised control over rate income with grant clawback regulations.

he said "look, if there was funding for brothels you would choose to build brothels" (AE.64).

There has been a considerable amount of lobbying of the Scottish Executive by the councils to reduce the use of ring-fencing for grant income and consent. The stated intention of the Executive is to move away from specific funds and towards monitored outcomes as a way of achieving its objectives. However, there has not been much movement yet and one accountant, although retailing that intention also comments on the reality of political life:

um in the longer term we have spent a lot of time trying to persuade the Executive to stop this lot of separate ring-fenced funds, it is their aim to do that, but they will only do that once they are certain the objectives have been achieved and it's also certain that as soon as they come up with a new objective then they will go back to ring-fenced funds, and education authorities, what they have been saying is give us a set of outcomes and we will achieve those outcomes, but don't make it, you know every little set of outcomes with a different grant claim (AR.27).

The mechanics of these central government initiatives for local councils deserve some consideration. The Executive has ambitions in service areas which are delivered by councils and in order to achieve its political goals the councils have to be persuaded to act in a particular way. Despite the common political control of the Scottish Executive and many of the councils and despite, (or perhaps because of), the council background of many of the members of the Scottish Parliament, it would appear that the Executive does not trust local government to deliver on Executive priorities. Although comment on why this might be so is outwith the scope of this research, the way control was exercised, (and continues to be exercised) is through an accounting device: initiative funds as carrots.

The question of whether the initiative funds represent extra money or are reductions in normal funding is a matter of semantics: if all that money is available to spend on the local public sector then any that has been earmarked for particular initiatives has been taken from the rest, and in that way all the ring-fenced monies can be said to be top-sliced. One of the main issues arises where the service bought with top sliced funds highlights the inadequacy of the normal budget, as it did for the school assistants and teachers.

There are two responses available to councils in order to top up their budgets: to distort their own strategy to do those things where funds are available, or to recast the description of what they are doing in order to fit the fund conditions. (Although the external audit process limits how far a description may be bent.) There seems plenty of evidence from the case study councils that councils are doing both. This seems particularly the case for bid funds. Some of the bid funds have been for very large scale projects: the Modernising Government programme for instance handed out development sums of millions of pounds to the councils whose bids to pilot e-government in Scotland had succeeded. Given the reputation of IT projects for exceeding budget it is difficult to imagine that the councils which follow will incur costs significantly lower than the pilots. There is no guarantee that sufficient or even any additional money will be forthcoming after the pilots, so there is an additional incentive to apply for bid funds – this may be the only additional money available for a service that will eventually become compulsory. Where central government says that bid funds for pilots allow different models to be tried out and working solutions found to various problems, local government could say that it is just a way of avoiding giving the necessary development money to all the councils.

Despite any concerns about the creation of distorting pressures on council strategy the lure of additional money is very strong for both councillors and officers. Although officers may have concerns about their vulnerability due to the incompleteness of the bureaucratic process and reservations about the additional work involved neither concern seemed important enough to turn down the opportunity for additional funds. To the extent that initiative funds produce the initiatives they were designed for they are a successful manipulation of income by the funder although, as has been mentioned, there are some reservations about the use of funds for their original intention.

Manipulation of Expenditure in Scotland

The new managerialist drive to consider alternatives to in-house provision based on possible economies and efficiencies that can be provided by the market, coupled with reluctance on the part of central government to increase the public sector borrowing requirement or tax sourced funding, has led to increasing use of the private sector to deliver local government services. The access to extra funds from the private and public sectors, and the possibility of increased operational freedom that this allows, have paved the way for staff to consider the establishment of trusts, not for profit companies and partnerships.

Many of these more recently introduced ways of funding and organising the provision and delivery of services have, as a side-effect, the introduction of an element of security into the continuity of revenue budget for those services. This section examines the knock-on effects of changes in the provision and management of services, specifically the way that these changes affect the extent that management can choose how to employ the resources available for the whole service and the growing perception of these knock-on effects as a management tool.

The use of external contractors by local government has varied between the two countries, from council to council and over time. The arguments in the private sector for using outsourcing are centred around saving money and focussing on core business. Perhaps more than most organisations, local authorities find defining core activities a difficult task. Apart from the diverse portfolio of services that central government has legislated for or that the ratepayers expect, each council has its own views on the main issues facing the area it serves. This point is illustrated by the questionnaire answers, which showed different committee structures for each of the Scottish and New Zealand councils that replied. A separate exercise collecting the Mission Statements for the New Zealand Councils found that each of these was also unique.

The compendium nature of local government services makes decisions on allocating resources between services difficult. Although a service may overlap with another in its area of concern, e.g. a planning decision may lead to additional demand for refuse collection, or housing tenants may also be social work clients, the overlap is marginal at best, and attempts to subsume one service within another seem to create more problems than they solve. This has been illustrated by the regular re-jigging of committee remits and allied departmental structures in Scotland since the reorganisation in 1996. Housing for instance has been seen as a service that isn't large enough to stand on its own, yet doesn't really have a natural home with another service. It has been combined with Social Work, Community Services, Environmental Services and Sustainable Services in different councils.

Prior to 1989 most council services in New Zealand were organised and provided in-house using personnel employed by the council. New Zealand councils, particularly

small ones, also used outsiders (other councils, voluntary bodies or the private sector) as contractors. In Scotland the same applied, although where other councils were involved the service could be jointly provided. What was regarded as normal provision in each country depended on history. For example, those services that were more likely to be provided by outsiders included legal work in New Zealand, dog pound facilities in Scotland and specialist or large scale engineering design in both countries.

In Scotland local government law is seen as complex and a specialist area which requires in-house expertise, complemented from the private sector by counsel's opinion on difficult issues and outsourcing of routine such as conveyancing work. New Zealand local authorities had no tradition of internal legal services, except in the largest councils, so use the private sector. New Zealand councils started life in 1989 with very few qualified financial staff, (Dixon, 1992) but by 1998 almost all councils had at least one qualified accountant on the books. Although it is normal for even the smallest New Zealand council to have an accountant or two in house, it is exceptional for councils to have lawyers of its own, whereas all Scottish councils have employees from both professions.

The control of dogs was seen as a necessity in an economy that depended on agricultural exports, so New Zealand legislation required local authorities to provide that service, subsidised by central government. Most councils employed dog wardens and owned the pound facilities. This remained the case even after the withdrawal of central government subsidy. In Scotland dog pounds were merely one response to a perceived need to reduce street nuisance and prevent harm to the public. There is a minor civic responsibility to provide a place for stray dogs found by the police which is satisfied through contractual arrangements with private kennels.

Local authorities in both countries expected to employ expertise from outside the council for projects that were outside the normal run of things, for example an engineering manager in one New Zealand council explained that for a circular concrete reservoir not only was there no in-house expertise but there was only one person in the country who was a recognised expert. However, other councils have developed particular expertise rather than pay outsiders to develop it for them: the engineers of one of the Scottish Island Councils designed the first “rock box” type harbour in the world because it suited its coastline of particularly hard and resistant rock.

What seems normal to purchase from the private sector varies from country to country and council to council. By and large the use of external providers was more common in capital projects than in revenue services. The one-off nature of many capital schemes, especially for smaller councils, meant that there was no justification for keeping that expertise on the payroll. Revenue services on the other hand usually ran on from year to year, and as a service developed new aspects grew out of the old provision. Either the new aspect was an innovation proposed by existing council staff or it was something that all councils were commanded or expected to do by central government, in which case the normal response would be to dispatch new and existing employees on training courses.

There has been a diversification of what is seen as the “normal” method of service provision in both countries over the last 20 years. Changes in political attitudes in central government in both countries led some to pre-suppose that private sector provision was generically better than that of the public sector, leading to, and coupled with, the new managerialism. In New Zealand this was part of an attempt to change the political climate from what was characterised as a benefit and subsidy dependent population to a

resurgence of the New Zealand self-image for being self-sufficient and entrepreneurial. This change of emphasis from the social realm to the economic was illustrated by a manager from the Commercial Council:

I read a really interesting thing the other day, someone was commenting on something that the secretary of the Ministry of Education, CE of the Ministry of Education had said at a select committee hearing, and he's an ex-Treasury employee, and he made some comment along the lines of well in today's economy you wouldn't expect a community to support a school or whatever, and the person said, "hum, things are changing, once upon a time we would have said in today's society you wouldn't expect ...", and I thought that was quite an interesting little signal... (O.311).

Central government had little fiscal control over local government compared to Scotland, but what did exist was used to lever change (as was seen in the last chapter). The Transit subsidy for roading was made conditional on competitive costing for works and later for design. Other central government interventions were attached to local government re-organisation in the 1989 Act, which required the new councils to corporatise their transport and energy supplies, and the Local Government Amendment Act (Number 3) 1996, which created a fiscal planning framework which would emphasise the need to seek reductions in costs in order to fund planned service improvements.

As a result, although there was considerable scepticism expressed in both New Zealand councils that the private sector was particularly efficient, there was an acceptance by some, especially in the Engineering Council, that most services would eventually be provided from outside the council with more contracting out and corporatisation.

What was considered as normal service delivery had widened to include provision from outside the councils.

Scotland on the other hand had councils which were politically controlled by people who were against using the private sector, and resisted the changes being put forward from central government. It required legislation to make the Scottish councils put revenue services out to competitive tender and even then every loophole was exploited to ensure the result was as the council desired, as was seen in Chapter 5. Nevertheless the managerial and financial disciplines that were accepted as required by CCT legislation became absorbed by those parts of the council that were subject to or threatened by CCT. The attitudes engendered became normal for many of the CCT providers who commented on how other parts of the council had not been made to become as efficient as they had.

Both countries had kick-start events like legislation and re-organisation which, by compelling structural change, gave opportunities for managers to re-evaluate all aspects of their services. The long term funding problems highlighted by the fiscal planning requirements of the Long Term Financial Plan regulations and ongoing pressure from ratepayers in New Zealand, and the Best Value regime and three year grant settlement in Scotland, have meant that managers remain under pressure to produce more from less.

As well as these constraints on revenue expenditure, long term capital investment, funded mostly by borrowing, was also controlled. In Scotland central government exercised strict control over the borrowing permissible for each council, in New Zealand each council was required to set a framework of limits for borrowings in relation to the total rate take. The managers and accountants who were interviewed on this topic seemed

ready to contemplate more externalisation of services from their councils, although it seems likely that some were talking about externalisation of other manager's services.

To summarise so far: in both countries there is pressure on managers to deliver more for less, and there is restricted access to both revenue and capital funding. There is difficulty in setting budgets across the multiple services that make up local government. Managers have been working in a climate where externalisation of services has come to seem more normal and, to a lesser extent, become more common.

Externalisation is used to mean ways of delivering services which pass the act of delivery to a body that is not the council. This excludes partnerships unless they are formed as a legal entity separate from the parent bodies. These externalised ways are grouped together for the purposes of this chapter under three headings: Invest and Operate, Trust Provision and Other Contracts.

Invest and operate.

Invest and Operate is used here to describe externalisation methods which provide additional capital investment into a service. In Scotland this has meant the Private Finance Initiative, which allows capital expenditure for public sector purposes over and above the tight restrictions of capital consent. In New Zealand this can mean franchising an asset and its associated income streams to a commercial provider who will then provide the capital investment required. In both cases the private sector invests money into building or improving the infrastructure and is contracted to run it for a set number of years on behalf of the council. The additional costs of private sector funding (higher interest rates and shareholder premium) are, in theory, offset by efficiency savings in both

the building and running of the asset. Invest and Operate is similar to council borrowing to fund an asset in that it spreads the cost over future years. However it is dissimilar in that it includes a continuing revenue contract to provide service.

Trust provision

Trust Provision describes the situation where responsibility for a service is transferred from the council to a non-profit making body, often created for that purpose, with a management board appointed or nominated from within the community. The assets of the service may remain in council ownership and be leased to the trust at a peppercorn rent, or they may be transferred. Examples of this category are not-for-profit companies, common and social trusts and housing associations and would include separate legal entities that are set up as one of these as a result of a partnership. For brevity here they are all referred to as trusts. A trust may be able to access funds from the public and public funds such as lottery monies or European development funds that were not available to a council. It may also be able to borrow based on the future revenue stream from the service or secured on the assets, or both. The council usually has a continuing commitment to purchase service from or subsidise the trust although this may not be binding legally.

Other contracts

These contracts are similar to ones for those areas of service that were previously provided from outside the council, the only difference being that the service had previously been provided in-house and in Scotland transferred staff have to be employed by the new provider under similar terms to those they enjoyed whilst working for the council.²⁷ The contract ties the council into a legal agreement for a limited number of

²⁷ This requirement, known as the TUPE (Transfer of Protected Employment) regulations, originally applied to transferred staff only, and it was possible to employ new employees on less

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years with another body which may be private, public, voluntary or not-for profit.

Council owned assets can be transferred or sold to the contractor. A variation of this is to sell the service (assets plus expertise) to another provider. In New Zealand, as was discussed in the chapters on Business Units, this has been done with parts of services which have been corporatised, including the sale of power companies, works organisations and design teams. In the cases discussed there were initial agreements that the council would continue to use the sold service, but once that dowry contract was over the new owners would have to compete for the council's business in the same way as other parts of the private sector.

The three categories of externalisation all include some commitment by the council to use the external service provider for an agreed length of time. This has implications for the way the service is treated in times of financial stringency.

Cuts and contracts

Most years councils look to find some savings from their initial draft budgets, either to enable them to set a rate increase below inflation (in New Zealand), to comply with central government restrictions (in Scotland) or to allow the council to expand a particular service. During the year additional savings may have to be found to accommodate overspends that have occurred through bad management or external events. In one Scottish council the whole budget had to be reconstructed one year following the discovery of half a million pounds overspend in the Education Service. In the New Zealand Engineering Council extreme weather had exhausted the flood prevention fund and money had to be diverted from other services to rebuild it. Many of the interviewees commented that nowadays every year brought more cuts to their budgets. Although more

advantageous terms. Since the research these regulations have been amended, with the effect of reducing the distinction permitted between new and existing staff.

sophisticated approaches had been discussed in the case study councils most cuts were spread across the services. Externalised services create anomalies in this method.

Whereas capital financed from loan meant that future revenues of the council were committed to servicing that loan, it was always possible that the asset purchased could be mothballed or sold in times of budget stringency. There would be a diminution of quality of the service and consequent political fallout of not using the asset, but the running cost of the facility could be saved apart from security costs and repaying loan charges (which in Scotland are largely funded by government grant). Another widely used ploy to reduce expenditure is under-maintenance of assets, which minimises the short-term cost of their continuing use.

However these strategies are not available if the service is being delivered through a PFI or other Invest and Operate externalisation. The asset could not be mothballed without some cost as the contract would normally be for the provision of a service, e.g. a fully functioning and maintained school building. Unless the contract specifically allows for the interruption of service (which would probably incur a cost penalty) the council would have to break the PFI contract to avoid the costs of using that asset; an unlikely circumstance. PFI contracts have tended to be larger than average capital contracts. This is due not only to the enthusiasm of central government for the funding method in comparison to the parsimony of the capital consent system, but because of the steep learning curve for the council, the preference of the private sector partner and high set up costs for both parties. As a result of the larger financial investment a lot more is invested on the political side, so a decision to withdraw from that service would entail significant political fallout as well as high contractual costs. It would seem likely that most council PFI contracts, once entered into, will to run to their conclusion.

This leads to some interesting questions about the risk analysis that is appropriate before entering into these long term contracts in a rapidly changing environment. Christian Wolmar highlights concern in the City that interest rates for PFI borrowing will rise to take account of the “political risk” factor following the Government intervention in Railtrack. An argument given against this is that:

Railtrack was a loss-making infrastructure company dependent on subsidy, very different from, say, a company financing a new school or leisure centre where the income stream is predictable and clearly set out in the original contract” (Wolmar, 2001, p28).

The assumption being made by the private sector funders is that the contract can be relied on to maintain the income flow from the council. If that is the case the risk associated with changing needs during the length of the contract is being born entirely by the council.

Services which have been converted into trusts will similarly have contractual agreements with the council which will provide base funding. The trusts being offspring of the council it is unlikely that even where the contractual basis for support is weak the council would deny the trust continuing finances. Where services have been outsourced to the private sector there is unlikely to be that degree of implied mutual interest, and outside the contractual constraints there may be little to ensure continued provision of that service, at least in that form from that provider. Somewhere in between the trust and the private sector provider, voluntary sector provision may have some moral leverage with the council, but this is likely to be offset by a poor legal structure to the relationship.

Many voluntary organisations provide services to local authorities on an ad hoc or annually re-negotiated basis.

An example of a voluntary body given by an interviewee was a company limited by guarantee which had taken over some of the Scottish Agreement Council's tourist assets. A similar arrangement had been made in one of the New Zealand councils concerning tourist promotion. These external bodies each had a contract with their council which guaranteed funding over the longer term. But what happens within the council when the plans for the following year are based on a reduced budget in real terms, either as a result of fiscal restraint by the council, central government requirements or new service demands falling on existing funding? For these tourist services:

The beauty of it is it's not affected by the kind of annuality funding problems that the local authority has, and that was the main reason for setting it up (AF.32-33).

It would appear that in the Scottish case studies staff are beginning to perceive a hierarchy of priority for the limited funds available based on the contractual arrangements for expenditure and are using this to protect their services.

The council will have various legal contracts which would be more expensive to get out of than to continue with; these will therefore be sacrosanct when looking for cuts. This will include re-payment of loans, capital works contracts, PFI provision, and private sector provision. There will also be arrangements or contracts with not-for profit providers which will have a range of legal and political ties to the council. Once all these have been budgeted out of the projected funds, the remainder of the services have to find the required cut in service and therefore cost to balance the budget. Assuming that the council decides to allocate cuts on an across the board basis, i.e. X% from each service,

those services that have most vigorously embraced newer forms of provision will find themselves with least room to manoeuvre with the remainder.

Interviewees perceived that externalised services have a shield against the vagaries of politics, both local and national. For supporters of those particular services this is a benefit of contracting, and the longer the contract runs the longer the service will be maintained at that contracted level.

... I think there is a longer term security by setting up these kind of contractual relationships or arms length partnerships.... (AF.37).

Where long term contracting is selectively applied there is the potential for internecine conflict between managers of contracted and un-contracted services. In the Agreement Council one particular secondary school was in extreme need of replacement. One interviewee said the playground was so full of portakabins that walking between them required a sideways shuffle (R.40). With no prospect of sufficient capital consent for the council to build a new school it was decided to pursue the PFI route and contracts were signed for a new school to be provided and maintained for 25 years by the private sector. If, in future, savings are required from the secondary school sector a decision has to be made on how to treat the PFI school in comparison to the other secondary schools. The service manager concerned had realised this potential problem but as this quote showed was still thinking the consequences through:

But it is going to be curious there because that is going to negate the capacity for, if there are budget reductions, you know that that, you know that payment's protected. So we're you know, we are potentially in danger of, at least in the other ... secondary schools, whether they would like it or not, we may have to reduce say the cleaning specification, or reduce the level to be spent on repairs and maintenance,

you know or the sort of sport service side of things, um, but that would not be, we could re-negotiate a specification but then, then you start changing the risk profiles and suchlike, that would be tricky, so yes, I think we potentially do have a difficulty with PFI schools, particularly when it comes to budget rounds. They have been guaranteed an income stream for 25 years (AA.79).

If all schools have to find savings in proportion to their pupil numbers the PFI school can only find the savings from staffing and materials, and doesn't have the cushion of reduced or deferred maintenance to fall back on. Alternatively a formula may be found that splits the savings between building related costs and other costs. The other costs could be split between all schools and the building related costs between the non-PFI schools.

Although this seems more pragmatic the head teacher of the PFI school has not only got the advantages of modern design and fresh paint but also a protected budget into the bargain. Head teachers from schools which were perceived as only marginally in better repair than the replaced school may well feel aggrieved if they are asked to make more savings from their stressed maintenance budgets because one school's maintenance has effectively been removed from the equation.

Another Scottish council has entered into a refurbishment PFI for all its secondary schools which will avoid this problem. But it was pointed out that it could face a worse one, they cannot cut any of the property costs so would have to reduce staffing standards to make savings. Alternatively the secondary sector budget could be sheltered and any cuts have to be found from the rest of the Education budget, or elsewhere in the council.

For the manager contemplating externalising part of their domain there are a large number of considerations. The Scottish Arts and Leisure manager who is investigating the pros and cons of putting the museum service into a trust sees both the possibility of reducing

museum service costs because a trust could be charged a reduced rate, and the possibility of additional income from lottery funding or Historic Scotland. What seemed to be the most important advantage of trusthood for this manager was the removal of the service from the political arena, where it had to compete for budget with the services that have a more specific statutory requirement. In the current year he was saying that Education and Social Work would be getting an increase in budget whereas "I'm taking a cut. To fund that" (AS.94). This particular manager did not see any problem with across the board cuts in budget affecting his remaining services disproportionately and was only concerned with the possible gains for the externalised service.

The finance position may not all be good news for the service becoming a Trust though: the Art Gallery and Museum in the New Zealand Commercial Council had become a Trust, and the head of one of the other council services commented on it:

... what council is seeing here is a mechanism for reducing costs. Because what it will say is well OK, we'll guarantee you funding er and your budget's X, OK we'll give you X minus Y because of course now in this new world you can chase sponsorship and all the rest of it ... and I think they've missed, they haven't thought that through carefully enough, ... (C2.4).

A trust that takes over a service that relies on a contribution from the council for a significant part of its budget remains beholden to the vagaries of political will, as even the best contract will run out and have to be re-negotiated. The same of course applies to contracts with the voluntary and private sectors.

Several of the interviewees from Scotland spoke about the use of externalisation of services to protect the service and for those officers who feel that their service is not

getting a fair deal from the council the temptation to externalise, and thus guarantee the resources for their service, at least in the short term, must be strong. This series of quotes is from a single manager, who, having seen PFI in schools is proposing to use it, or something similar, to defend his own service from budget cuts.

... I think what we have to be trying to do is actually guarantee the level of resources being invested in the infrastructure [for this service]. I mean we are sitting next door to a meeting that's going off at the moment about the budgets with the management team, and the view is again that things will get cut, because there's increasing financial demands on the council. There is a view that if you actually deliver the service differently you can actually ring fence that particular level of money for a particular service so that it wouldn't even get caught up in the budget process. Now you can only really do that if you are caught up in a contract outwith of the council. Something legally binding, I mean PFI is an example of that type of approach, because you are effectively top-slicing your revenue budget.... (Z.19-21).

... if my job is to try and deliver the best service from (this) perspective for the council, alright it might not, ultimately, is it what's best for the council or what's best for the service? My view is that what it should be about is getting as much money spent on the front line as I possibly can, now if that's a mechanism to do that, then we will have to look at going down that route (Z.47).

... I don't agree with PFI because I think PFI ultimately will end up being more expensive, it was initially just a way to get round lack of capital, and, but at the end of the day the Director of [Education], if he's got a PFI at School, that won't even come into the budget discussion, because it's just gone. Alright, might put a

bit more pressure on the rest of the budget, but I mean it's gone, because it is basically a facilities management agreement with another provider. It's, I don't know, it might end up as short term gain, long term pain, but it certainly has protected that school, and that budget for the next 25 or 30 years (Z.49).

Service managers are seeing PFI, and other forms of externalisation, as a useful tool for protecting their service. Although there are doubts about the costs of PFI, there is no question that it, along with other forms of externalisation, are seen as being encouraged by the Scottish Executive. Externalisation is a pragmatic budget defence which is also a normative isomorphism. (In the case of PFI - "the only game in town" – it is probably coercive isomorphism.) But the pragmatic adoption of this form of service delivery leads to inflexibility in the service provided and, perhaps more importantly, reduced flexibility in the rest of the service, which may hinder the creation of value for money and the pursuit of Best Value. The ability of the councils to take strategic decisions for the whole council becomes compromised by the externalisation decisions affecting individual services and parts of services.

Main Issues

Returning to the key questions, this chapter is about the accounting mechanisms being used to achieve political ends at both the national and local level. Is the profession involved in this? Yes, in as much as it is acting as a broker in arrangements for initiative funds, and helping accountants to understand and use externalisation. The growth of earmarked initiative funds emphasises the separateness of each of the services winning bids or gaining extra resources, potentially at the expense of other parts of the council. Any use of externalisation will protect some budgets while leaving others potentially more exposed to the vagaries of political will. The separation between some services of

the council and others will be delineated by their different funding and contractual arrangements and consequent degree of political vulnerability.

Accounting –used to prioritise services

Top slicing and budget shielding are both forms of service capture, restricting the scope of the councillors to make strategic decisions about the services provided by their councils. The top-slicers, central government, are specifying what sort of service the elected councils should provide by paying them to do it in a particular way. The budget shielders are locking the council into long term provision in order to shelter their particular view of what the council should be doing. Accounting logic is underwriting a transfer of political power to the Scottish Executive and away from existing councillors, and to service managers and existing councillors and away from future councillors. The first of these power transfers is deliberate; the initiative funds are intended to achieve Executive priorities. The power that comes with controlling resources is being wielded and that serves effectively to reduce the amount of discretion remaining to the councillors. The second power transfer, where the service champions (managers and supporting councillors) externalise to protect their service against competing claims on council resources, may not be so intentional. Externalisation contracts commit future councils to decisions made by current councils, thus reducing future choice. There is also a question as to how aware other parts of the council are about the affect on their services of externalisation elsewhere in the organisation.

Top slicing and budget shielding can also be seen as methods being used by service champions in central and local government to ensure that their service gets a good share of resources. This is much of what underlies the New Zealand councils move from tax to charge. So in New Zealand the paying public are being persuaded to fund what the

council wishes to provide. In Scotland the councils are bribed to provide what central government wants, and the council officers are using the contractual illusion (no contract lasts for ever) of certainty of externalisation to ensure continuing council support for the services in question.

The Scottish Executive is using top slicing to promote its political agenda. Officers could be seen as taking their cue from the Executive use of top slicing to effect budget shielding to make sure that their own agenda is being followed. These are specific examples of an accounting mechanism being used to achieve political aims.

The role of the profession –incidental normative isomorphism

In the main this chapter has been about Scotland, where CIPFA operates as facilitator for local government accountants, providing training, consultation and interpretation for new aspects of the job. CIPFA, like many of the other professional and interest groupings involved in council services, has been involved in consultations with the Scottish Executive over the number of ring-fenced initiative monies. In this CIPFA represents the members who have to deal with the additional workload. The Institute is also involved in working with COSLA and the Executive to improve the information flows and accountability associated with the initiative monies. These two roles are potentially in conflict with one another. The first aims to reduce the use of ring-fencing. The second role reduces the instrumental friction caused by ring-fencing and thus could be seen as changing the negative perceptions of the initiative monies, allowing continued use of this accounting device by the central government politicians.

The CIPFA publication list shows the number of documents produced, mainly for accountants, which assist with externalisation of services.²⁸ The main reason may be because this aids the profession members, but additional benefits to the Institute are a perception that CIPFA is operating at the cutting edge of "modern" public sector accounting, a role onside with the Executive in promoting more diverse ways of providing services and perhaps income from sales of these publications. It also creates a normative isomorphic force with each piece of guidance and interpretation: if the profession says externalisation should be done in a particular way there is an implication that externalisation is inherently acceptable.

The centrifugal council – favoured children

The use of top sliced funds by the Scottish Executive for particular services gives publicity, additional funding and attention to those services. By spotlighting these, other services become less visible to the general public. Where the initiative monies are associated with performance indicators to indicate attainment of Scottish Executive goals these indicators also reinforce this differential. The fundings and performance findings are highlighted in press releases as part of the Scottish Executive's routine communications with the public. If each service appears to be funded and measured separately, by implication it has little association with other services, and could be separated from or within the council.

With externalisation the contractual use of third parties to provide services distinguishes those services from others. Where the contract is for a large part or all of a service it serves as a shield to protect that service from budget cuts, providing a priority that may or

²⁸ As at August 2003 there were 10 items listed on the page for the Competitiveness Joint Committee on topics such as commissioning services, PFI and partnerships. Two of these, the Code of Practice for Commissioning Local Authority Works and Services and the Competitiveness Joint Committee Guide to Choosing Partnership Vehicles are listed in the overall "Top 10" publications.

may not have been intentioned above that of other services. By contracting with an outside party for services the council is separating the provision (and possibly planning and strategy in the case of trust bodies) of that service from the rest of the council.

In both cases service champions are using an accounting device primarily to bring more resources into those services. But this is being achieved at the expense of other services by top slicing the available resources in favour of the championed services. This distinction between services is another centrifugal force working against the multi-functional nature of councils.

Chapter 10 Conclusion

This chapter consists of summary, discussions and conclusions. The Summary section re-visits the intention of the research, what was done, and what has been reported in the previous chapters. In the Discussion sections the main research findings from the selected topics in the studied councils are drawn together and explored, leading to my theoretical developments and conclusions about the role of accounting in constituting change within local government. The chapter ends by considering the implications of those findings that raise further questions for research.

Summary

I set out to find out what was happening to my field of local government accounting. The organisational structures and the relationship between management and accountancy seemed to be changing and I needed to find out what was going on. Discovering that similar changes were also happening in New Zealand made the question more intriguing: it seemed that the genesis of the changes being made in Scotland could not be entirely attributed to UK central government. As I became immersed in the research my concerns crystallised around a group of emergent organising questions, what I have called the three key questions:

- how was accounting being used by people in local government and to what end;
- what was the role of the accounting profession in determining the accountancy that was being done and;
- what were the consequences, unintended as well as intended, of these accounting processes?

I started from the belief that accounting and councils were social creations, and that both existed in people's minds, including my own, as some combination of attitudes, received images and information and experiences. This placed me in the interpretive paradigm (Burrell and Morgan, 1979), and the literature of institutionalism seemed appropriate to my research approach and view of councils and accountancy (Zucker, 1977, Pfeffer, 1981 and Lowndes, 1996). My search for understanding of influences on the choosing of organisational forms led particularly to consideration of the isomorphic processes identified by DiMaggio and Powell (1983), Pollitt's stages of convergence (2001,2002) and what Urry (1987) called locality effects.

I gathered information by questionnaire from as wide a range of councils as possible in order to obtain both views of what was going on in individual councils and an indication of the extent of common elements and common changes. This information was used to identify two councils in each country which were not too different from most other councils in that country. In each of these case study councils council documents were examined and individual officers and councillors were interviewed focusing on their perceptions of critical incidents with an accounting dimension.

Ethnography is a form of research that can assist in the discovery of what people perceive about their socially constructed world. The interpretation of social discourse, the search for meanings for actions and the sense that accountants and managers make of their work puts this research within ethnography as symbolic interactionism, or interactionist sociology (Geertz, 1973, Silverman, 1985, Jönsson & Macintosh, 1997). From this standpoint the main way to discover information is by talking with and (to a lesser extent) observing the actors within the institutions. I aimed to gain a view of a constructed reality

where actions may, perhaps by design or perhaps fortuitously, be seen to solve perceived problems.

The immediate result of the research was nearly half a million transcribed words and a filing cabinet full of notes and information. Many of the interviewees were passionate about their work, and I have chosen to use long quotes in some places to illustrate their concerns. In other places I have used quotes to demonstrate the process of sense making that the interviews provoked, where a question led to an exploration of an issue, rather than a simple answer. Other quotes have been used variously as explanations of detail, and as a basis for analysis of metaphor and discourse.

I found four organisations which had different structures, different approaches and felt different from one another, even though they were all easily recognised as local government bodies. Consideration of each council prompted particular questions about the use of accounting. From the information generated by the case studies I identified and discussed particular uses of accounting which came to form the main chapters of this research. These accounting topics were overheads, business units, taxes being replaced with charges, top slicing of grant support and defending budgets by externalisation. Each topic illustrated aspects of the key questions: how accounting was being used, the role of the accounting profession in shaping that accounting, and some of the consequences, especially the centrifugal effects of the accounting being examined. Accounting defines what is being accounted for, and so creates a particular view of an organisation showing what a particular set of accounts counts. Other accountings will provide alternative visibilities of the organisation, what Hopwood defined as the most powerful role for accounting in processes of organisational change. Looking at an organisation through the

accounting that is being done shows the results of the particular choices that have been made.

By examining a routine accounting procedure – the treatment of overheads – I found that each case study showed particular characteristics which enhanced my understanding of that council. Each of the four treatments ended up with all costs charged to some definition of front line services. But the accounting for overheads was different enough in each council to raise the question why, especially given that, in principle, the charging out of overheads is a coercive isomorphism required by the law acting through the accounting profession. The non-financial elements of the councils, the dominant disciplines and politics, were being codified into and reinforced by the accounting procedure. The treatment of overheads could be read as accounting producing accounts in a way that embodied the character and self-understanding of each council.

These different treatments of overheads also lead to different organisational and political consequences. CIPFA guidance seeks:

... the full cost of support service functions, as well as overall service provision, to be determined for both internal and comparative purposes (CIPFA, 1988).

It is this requirement for accounts to provide information for both internal management and external financial reporting that produces problems. These different forms of accounting can be seen as examples of “production of the organisation and organisation of production” (Copper and Burrell, 1988, p106). If all costs are reported as belonging to and, by implication, generated by front line services, even if some are designated as “non-controllable”, then the service managers will have to deal with the consequences of the total costs. I found no challenging of the requirement for overheads to be allocated to

services, simply of the amounts charged as a result. Front line services in the case study councils produced examples of negative effects of non-controllable overhead costings, and as seen in the graphic images in Chapter 5 they were a source of fairly constant aggravation.

Support services were provided to front line services before the introduction of full allocation of costs and service level agreements (contracts in the Commercial Council, performance agreements in the Engineering Council). The informal arrangement has been replaced with a quasi-contractual one which, in the case study councils, displayed severe weaknesses. The service level agreements were intended to produce a fair exchange of costs for support service delivered. Yet the support service provider who writes the service level agreement and controls the cost of the service which forms the basis of the agreement holds all the power in the arrangement.

Adding support costs to direct service costs produces a total service cost for the purposes of external reporting and comparison between councils who should be using the same rules. Problems arise where the total cost figure is used for other purposes, for instance to calculate user charges or in comparison with a private sector which is not constrained by the same rules. These problems should have been ameliorated by the use of service level agreements which ought to have extended the influence of the front line service over the support costs and other overheads. In the case studies it was apparent that the service level agreements had not significantly extended the influence of the purchasing services and so the problems caused by using total cost for internal decisions remained a source of background organisational irritation.

Looking at business units (BU) showed another perspective on the way that accounting was being used within the case studies. BUs are defined by accountancy, which creates the only agreed distinction between them and the rest of the council. The management accounts of BUs are operated as mini-financial accounts with balance sheets and profit calculations creating economic spaces within the council similar to those seen by Larner (1997) in New Zealand national government. Each BU was different in its aims, its funding, and its justification. A “business unit” in the New Zealand case studies could be said to be an accounting-framed organisational label that was used by management to achieve management aims which were primarily non-financial. The Scottish DSOs may have been originally established for political reasons, but at the time of the research were changing, demonstrating that trading accounts do not in themselves enforce a particular style of management or form of organisation. It would seem that although accounting defines BUs it does not necessarily dominate discourse or decision making within them.

Business units may be linked to the rise of New Public Management through their association with “businesslike” behaviour and commercial comparability, but the reason why each of the BUs in New Zealand had been created was not primarily to make those parts of the council more businesslike. This applied even for Enterprises, which was set up to forestall calls for more extreme commercialisation of the services such as contracting out. The businesslike behaviour sought was being espoused as camouflage and a life raft, rather than for any inherent merit.

Although to some extent all the findings chapters illustrate the use of accounting to further political (small p) aims, BUs seem to have been deployed primarily to overcome politically difficult problems. Because BUs are defined by their accounting – separate and ring-fenced – that separation becomes mandatory for the council. This feature of

BUs makes them politically useful as does the malleable and optional nature of their other attributes. In New Zealand the Enterprises BU was defending services against privatisation, the Water BU protecting its needed income from what managers perceived as the councillors' political timidity and Customer Centre BU ensuring that efficiency savings remained visible and therefore useable by the politicians. In Scotland business units may have been legislated for initially on Political (large P) grounds, but the ways in which they were originally actualised and subsequently modified after the freezing of the CCT legislation reflect the circumstances and wishes of the individual councils.

Chapters 8 and 9 have also been concerned with the use of accounting devices to achieve desired political ends. In so far as both chapters are about councils dealing with income and funders they could have been considered together, but were separated in the cause of simplification.

Chapter 8 concerns a move away from funding New Zealand councils through a general tax towards funding from specific charges. In the case study councils charges were designed to make paying for services that the councils wished to provide more palatable to the electorate. Tax payers were becoming charge payers. This change of identity can be seen to have arisen from the accounting change. Alternatively, the accounting change may have been necessary to reflect some change of identity of the population from tax-paying citizens to charge-paying consumers within the rhetoric of "user-pays". This may be an instance of accounting both constituting change and reflecting it; the "mutually constitutive relationship" described by Hines (1989, p52).

The Scottish case study councils were in the position of having priorities given to them by central government through their funding, and the response, in part, had been to consider

protecting their own priorities by contractualising service provision. The Scottish Executive has authority over local government and can, if it chooses, dictate the actions of councils. Instead, for the subjects of the initiative funds, the Executive chose an accounting carrot and stick approach, offering a greater share of resources in exchange for behaviour that conformed to Executive desires. There were numerous reasons suggested for this approach, few of which concurred with official Executive explanations. This perhaps indicates that council actors are unconvinced by the reasons that the Executive are proffering. But the use of accounting devices rather than command to achieve Executive policy could be regarded as illustrating a relationship which contained some respect and power balance between the parties.

Much of the discussions concerning contractualising service provision centred on the PFI schools and the ways in which they fitted into the budget processes of Education Services and the wider council. The effects on budgets were seen as inadvertent and unexpected outcomes of the novel procurement and funding procedure. The initial reason for externalisation had been because PFI was “the only game in town”. But the deliberate use or contemplation of externalisation to protect service budgets illustrates concern over future security of continued budget provision. The service champions may not have believed that other parts of the council accorded their service the same priority as they did, or may have considered that their service was too important to be treated the same as the rest of the council. Despite concerns over the efficiency of using public funds in this way the accounting involved in externalisation can ensure that the service that has been externalised is insulated from political pressures for the length of the contract.

In these ways, this study has highlighted the importance of accounting in shaping organisational developments in local authorities, while demonstrating a significant range of variation in organisational forms and accounting practices.

Discussion

If organisations are systems of shared meanings: (“shared consensus concerning the social construction of reality” (Pfeffer, 1981, p9)) then mechanisms for conveying those meanings are intrinsic to the existence of the organisation. Accounting provides some of these mechanisms by being an institution, part of which operates within the institution of the organisation, and by providing a shared language. Accounting contributes to the constitution of relationships between different parts of the organisation, between the officers in different parts of the council, the councillors, the electorate, central government and external service providers. In addition the permeation of accounting throughout local government allows it to be used as an analogue for some of the shared meanings that constitute the organisation, and parts of the organisation. Financial and non-financial aspects of organisations can be read through the accounting that has been utilised. This discussion section brings together the findings from the topic chapters around the three key questions.

Discussion - how accounting was being used in the councils

Apart from overhead allocation all the accounting topics discussed had used accounting to achieve non-accounting-specific aims. In addition to the explanations for the choices made in terms of the perceived problems and potential solutions, another question raised is what does accounting contribute that allows it to satisfy these aims? This research suggests that accounting principles are not challenged, although the outcomes often are. The combination of an institutionalised profession using numerical inscription as a

currency seems to be unassailable in the context of local councils. If accounting cannot be challenged then if a manager defines a desired outcome in accounting terms then *de facto* it cannot be challenged. So, for instance, councillors cannot renege on capital charges to the Water BU. Accounting can also transfer or reproduce a measure of economic and political power, as with the initiative funds or externalisation. This may be by intent, or as a by-product, or a combination of the two.

The other attribute of accounting which allows it to achieve these financial and non-financial outcomes is the assimilation of the language of accounting throughout the councils studied. This is not just the adoption of business terminology from new managerialism, but the use of accounting terms such as going concern, overheads, contribution, and, specifically from private sector accounting, equity, profit and gearing. Although these terms were used in interviews with an accountant, often talking about accounting, they were not only used by accountant interviewees; it appeared that service managers had absorbed accounting terminology as an appropriate and customary form of discourse. Widespread use of accounting-derived terms may indicate an acceptance of the validity of accounting as a way of ordering activity, even if usage does not equate to a common understanding. The ease with which accounting expressions were used by non-accountants was particularly obvious in New Zealand, which may reflect the acceptance of economic discourse in the wider community (Larner, 1997).

In both countries accounting was being used by non-accountants to achieve aims that were primarily non-financial. The percolation of accounting throughout the councils seems to have broadened the appreciation of the enabling aspects of finance. Returning to Cochrane's suggestion that the power of the finance function in United Kingdom councils had been superseded in the early 1990s, the Directors of Finance in the two Scottish

councils had different styles, but both were seen as being very much in control of financial issues. The apparent widespread awareness of the uses of accounting in councils can be read in several ways. Accountant numbers have grown within local government in both countries and in both of the Scottish councils there were also accountants employed outwith the Finance Department. It seems likely that more parts of the rest of the council are consequently in contact with accountants, and therefore with accounting and its uses. There may have been a dilution of the power of the Director of Finance, who can no longer claim sole rights to accounting knowledge. Alternatively the role and power of the Director of Finance may have been enhanced through other managers appreciating the possible uses of accounting for the benefit of their services and needing the assistance and approval (or at least acceptance) of the Director of Finance to proceed. This last interpretation seems most likely given the instances found of accounting usage for non-accounting purposes. Although the Directors of Finance may no longer be the sole key holders to the mysteries of their profession they remain the gate keeper to the proper process within the council, particularly in Scotland where they hold the statutory power of being the Section 95 officer.

Discussion - role of the profession

Although the council institution cohabits (amongst others) with the accounting institution it does not encompass it. Accounting in the United Kingdom comprises a collection of professional Institutions (the Consultative Committee on Accountancy Bodies (CCAB)) whose members operate mostly outside local authorities. The profession outside councils has a strong influence on the profession on the inside. Even though the public sector institute, CIPFA, is pre-eminent in councils in Scotland, it does not operate in isolation. The strap line for CIPFA publications is “The leading professional accountancy body for public services”. To attain that position CIPFA has to address the needs of the public

sector, and maintain its own position and credibility as one of the six CCAB Institutes. It therefore has an interest in making public sector accounting credible to the private sector accountants who dominate the accounting institution.

In New Zealand the sole, private sector dominated, accounting body controls the generally accepted accounting practice which councils are required to follow. So in both countries the professional bodies are inclined towards promoting private sector accounting approaches for the public sector. The accounting statements produced from rules established by the accounting bodies are for financial reporting: accounting for the entity to the outside world. Such statements are not used to manage resources within commercial companies. But elements of these statements have become part of the internal accounting of councils, and are being used to control and measure performance within councils.

Where changes have been initiated by central government the professional bodies have become co-opted into the government orbit. Participation in consultation on draft legislation may influence the final Acts. The statutory requirements to comply with generally accepted accounting practice in New Zealand, and the implied requirement to comply with Accounting Codes of Practice in Scotland enlist the ICANZ and CIPFA in authoring legislation. CIPFA also produces guidance for implementing Executive initiatives. These actions all accord with the roles of the professional bodies in representing and promoting their membership and accountancy. But they also give rise to the impression that the professional bodies support the changes coming from central government. Guidance on how to implement particular changes produces isomorphic pressures in favour of those changes. These pressures are normative but the close link

between the professional bodies and government means they may be perceived as coercive.

As was discussed in the chapter on background the radical changes in the New Zealand public sector were seen to be led by a group of individuals. These people were feted by accountants at the time, speaking at accounting conferences (for instance one of the Treasury team was a plenary speaker at the Accounting Association of Australia and New Zealand Conference in 1992) and publishing papers in both practitioner and academic journals (McCulloch & Ball, 1992; Pallot, 1992). For a while at least, an image of accountants as heroes of the revolution was projected by the profession.

The accounting profession in the two countries has a pre-disposition towards private sector accounting, a role in creating the legislative changes imposed by governments on councils, and has provided a platform for people pursuing new managerialist outcomes. As a result it has become a powerful advocate for neo-liberal economics in the public sector. The profession cannot be considered simply as a source of technical advice for their members, although that may be primarily what members look to it to provide. As guardians of accounting rubric the decisions of the profession have much wider implications.

CIPFA and NZSA both require the use of full cost accounting to produce the financial accounts showing cost by service or significant activity. There are many references to the “correct” cost from both accountants and managers throughout the case studies. The notion that there is such a thing as a correct cost for any single activity underlies the whole idea of calculating and sharing overheads. Hopwood suggested that accountants aimed for a correct cost but often failed to achieve it:

The essential subjectivity of the concept of cost has been reduced by the accountant into a fact, something which strives to be a calculative embodiment of the abstract phenomenon, but which often is not (Hopwood, 1990, p9).

But most accountants interviewed considered that there is, at best, a range of costs that could be considered as reasonable. Accountants work on the assumption that reasonable assumptions and decisions on treatment of overheads will lead to an acceptable figure, that refinements of the treatment will improve the figure and that further refinements will further improve the figure. Somewhere along the process the search for an acceptable figure becomes a closer and closer approximation to a quest for a correct cost, a “calculative embodiment of the abstract phenomenon”.

The actions of the accountants in refining their calculations adds layers of accounting to the final figure, invoking the mystique of the unknown and the scientific gravitas of a number based discipline. It is not surprising therefore that many of the managers share the accountant’s contradictory views on correct cost. They know that overhead allocation produces an approximation, but still want the correct cost to be used for their overhead charges. The agreed BU definition is based on identifying and ring-fencing the costs for a service. The assumption is that the costs can be identified. But as was described for the DSOs and Housing accounts, the costs apportioned to these early BUs were in some cases skewed for political purposes. That was presumably considered a correct cost at the time, but changes to the council’s structure have created a need for re-evaluation of the correct cost.

Chapter 8 considers questions about sourcing income to match expenditure. If all expenditure is paid for by a single rate there is no need to quantify expenditure on particular services for the purposes of rate setting. However using a variety of income

sources intended to meet the costs of different services requires expenditure to be divided by service. The charge for each service is set on the basis of the budget for that service which is assumed to estimate the correct cost. The officers, councillors and charge payers all participate in these transactions on the basis that the cost being used is correct. The challenges discussed in the case studies were concerned with the services being performed and who was being charged; the figures given for cost were assumed to be correct.

The RAF process requires the council to consider an appropriate split between public and private interest for service expenditure in a manner that matches the extent to which the direct benefits of that expenditure accrue to those persons with a private interest. That split is then applied to the cost of the service in order to calculate charges for the private proportion. A great deal of work was done to calculate the split and to configure charges to match, based on the assumption that the underlying cost figures were correct. As has been mentioned, the seeking of an appropriate split had already become a seeking of the right split, and, despite the description of the split as “arbitrary” by one senior manager, it seems likely that the concept of a correct split would strengthen through repetition in subsequent reviews. The RAF process is such a political area that it seems as though it should be obvious that there is more than one interpretation of the appropriate split, but it would appear that alternative views can be discounted as wrong (one council’s library report was dismissed as “garbage”). The idea that a correct cost is out there to be discovered is joined in the RAF process by the idea that there is also a correct split between the public and private interest on which charging should be based.

Accounting operates using numerical rules, which appear to indicate that there is only one right answer to any accounting question. However, dividing expenditure or income

between parts of a council involves choices, which implies that there is more than one possible split. The accountants, following the guidelines of their profession, decide which split is proper, and that seems to be accepted by the rest of the council. Again, what are seen as principles of accounting are not challenged.

More complicated accounting involves having to make more decisions. Full allocation of costs to services, business units accounted for as mini-companies, and costing for user pays decisions all mix financial and management accounting. This mixture produces figures which are of interest as indicators, but generate problems, as has been seen, if used as the basis for decisions based on comparisons. The response of the profession is to bring in more rules to define full costs. CIPFA code of practice guidance is intended to:

... support the objective to establish the widest range of financial reporting requirement, in order that data consistency and comparability are achieved (CIPFA, 2002, section 1.3)

The same code of practice requires all councils to adopt the CIPFA definition of “total cost”, the purpose of which is to “provide the consistent basis for all statutory financial disclosures in relation to Best value”. Some accountants seemed to be aware that the idea of a “correct cost” may be a fallacy masquerading as an axiom although one suggested that problems can and should be dealt with by the professional rules becoming precise enough to “nail it down”. Some accountants at least believed that although elusive, “it”, correct costing, can be established.

Accounting has become more widespread within councils with non-accountants utilising it as a tool to define and achieve political aims. As a result there is a broader acceptance of accounting as a basis for decision making, and these decisions are based on the total

cost defined by the accounting profession. So inherently approximate costings are used to make decisions which can have consequences far beyond accounting; affecting performance indicators, service quality, externalisation decisions, people's livelihoods and the communities served by councils.

Discussion - consequences - the centrifugal council

Many of the consequences of the accounting being examined by this research have already been discussed. However, one particular outcome was visible in each of the topics and is worth treating separately: the accounting that was being done was emphasising the separability of the different council activities. Councils provide a range of services; they are multi-function organisations. Some of the legislation which determines what they shall do is prescriptive for a particular service. Other Acts concern multiple services, and are a mixture of permissive and prescriptive legislation. I have worked in councils and seen the way the services could complement each other, using each others' resources and experiences. I know of Social Work minibuses used for educational purposes and IT managers leading interdisciplinary care groups. I have heard the government rhetoric about joined-up-working, partnership working, one-stop-shop access to public services and client-focused delivery. So I was surprised to discover that every one of the accounting topics I considered in this research worked against the concept of multi-purpose councils and promoted the idea of separable services, and in some instances, such as LATEs, the actuality of separate services. Even the re-integration of the DSOs in the Scottish case studies is in the context of continued separate trading accounts and the 2003 Local Government Act may lead to more services being deemed trading. In all the topics which are based around service costing (Overheads, BUs, and Tax versus Charge) accounting is used to define the boundaries of the service,

and once identified as separable in numbers, as was mentioned by several interviewees, a service becomes removable from the council by privatisation, corporatisation or sale.

The prioritising of services through Top Slicing gives those services additional resources in exchange for producing particular outputs. Initiative funded services may seem to be more important because of the support, both financial and political, and publicity from the Scottish Executive. The net effect to both onlooker and council insider is to distinguish those services from more routine parts of the council. The use of externalisation separates provision contractually. The commissioning side of externalised services is dealing with a service that is different to other parts of the council in that as well as being externally provided the budgets are protected for the length of the contract. All of these accounting actions enhance the sense of uniqueness and definition of each service within the council.

In some cases changes created by the accounting actions resulted in a loss of institutional knowledge, which would appear to damage the whole council paradigm more than it does those of the smaller work units nested within it. None of the council accounting examined supported the benefits of being a multi-purpose organisation. These benefits may be mainly associated with service quality, which is difficult to quantify and render into accounting. Accounting concentrates on what is possible and refines figures for full costing, thus drawing stronger intra-council boundaries around each service.

Does it matter if councils are succumbing to centrifugal forces? As early as 1990 Hopwood observed that political moves were creating smaller units within councils which would allow competitive pressures to be introduced. Raising concern about centrifugal forces can be portrayed politically as a stance against privatisation, and there may be a justified element to that. But many of the interviewees recognised, explicitly or

implicitly, the value in multi-service working within their council. I have quoted the example I was given about the plumber who notices that the client needs some occupational therapy assistance with their taps, and this was just one of several instances which illuminated beneficial cross-boundary work within councils.

A Theory of Pragmatic Solutions

Within organisations things that cause problems have a higher visibility than things that do not. Changes that appear to address existing problems are preferred to ones that do not. Even where interviews had focussed on the wielding of power, for instance the influence of the Scottish Executive, the discussion concentrated on operational problems. There were many reflective contributions from reflexive actors, but these were made in the context of conversation about how critical incidents were handled. Overall the impression gained was of council managers who considered that they had a degree of autonomy in organisational decisions. Their problems may have been defined by changes to external political, economic and social environments but were above all experienced as local problems and issues to be managed.

For the topics discussed choices had been made from the legally possible options. Some choices had been selected from solutions applied elsewhere. Adoption of an organisational form from outside the organisation is identified by DiMaggio & Powell (1983) as isomorphism. But most of the examples found do not fit well into their three categories of coercive, normative and mimetic. Although in some cases a change was forced on the council by legislation, the form to be adopted may not have been, for instance for roads work and design in New Zealand. Some forms showed normative isomorphism, for instance the use in the Scottish councils of service level agreements promulgated by CIPFA. For the most part though, where changes had produced formats

in use elsewhere, the isomorphism could not be described as either coercive or normative. DiMaggio & Powell suggest that mimetic isomorphism is used where organisations model themselves on others as a way of minimising the risks when faced with uncertainty. Although risk minimisation was evident in all four cases, it did not seem to have formed part of the decision making processes that resulted in the adoption of isomorphic forms. As described in the section in Chapter 3 on Isomorphism and Legitimation, DiMaggio and Powell's categorisation needs to be expanded to encompass the analysis from this research.

The findings from the case study councils suggest that it is the active actions of decision makers rather than passive acceptance of other influences that bring about the adoption of isomorphic forms. My additional categories arose as follows:

- a) *fortuitous* mimetic isomorphism: the Customer Centre business unit idea arose in part because the Chief Executive of the Commercial Council had seen "something similar" in another council.
- b) *justifying* mimetic isomorphism: the Chief Executive decided to go ahead with the Customer Centre business unit because becoming a business unit would keep consequential savings visible and available. In meetings with the management team the example from elsewhere was described as working well.
- c) *justifying normative* isomorphism: once the decision had been through the management team and promulgated within the council the new manager of the Customer Centre business unit explained the idea to me as "a proper way" of providing the service.

Three of the four councils had developed unusual forms of their own, for instance: the "Water Club" in the Engineering Council; the out-placed accountants in the Agreement Council; and Enterprises BU in the Commercial Council. It can be argued that these

forms arose from the particular culture and perceived needs of each council. The Engineering Council would be expected to prioritise a basic engineering service, a council that considered agreement to be important would support matrix management, and the Commercial Council is going to be enterprising. Although specifically in response to the way in which overheads were treated, my labelling of the councils inevitably reflected what was happening within them, so to some extent this is a self reinforcing set of descriptors.

The essential point is that councils choose a form of structure which suits their circumstances and then, if this seems to reflect an isomorphic form, they use the isomorphism to justify their choice. This suggests that decision makers in councils are more self-determining and reflexive than the existing isomorphism and institutionalist models imply. Isomorphism appears to happen as a result of two distinct processes. The types outlined by DiMaggio & Powell (1983) are imposed to a greater or lesser degree and the role of the council's decision makers is passive. With the additional types I have proposed the imported form is chosen for what it can bring to address a locally perceived problem. The form is seen to be possible because it is used elsewhere; isomorphism puts it on the menu but does not determine its selection.

The problems identified and choices of solution made by the councils, and the way that accounting was being used as part of these solutions all support the idea that relatively autonomous decision makers were steering these organisations. Outside influences, including central government and the accounting profession, were accepted and dealt with as part of the environment. These constraints, along with the council's self image and self-narrated history constituted what Urry (1987) described as "locality effects", and it was within this context that decisions were being made. The councils did not present

blank canvases on which external forms could be copied by the simple adoption of isomorphic forms.

Apart from service level agreements and business units where some isomorphism seemed present, there was little evidence of the convergence discussed by Pollitt (2001 & 2002). Even service level agreements and business units appeared to be instances where a common nomenclature had been adopted for different things. So although what Pollitt described as “discursive practices” had converged, the “accomplished practices” had not. Service level agreements were suffering from “simple disimplementation”, described as a form of “excessively rational accounting” by Meyer (1983), with what were called service level agreements being described as not much different to allocation systems. Business units were being implemented, but their “action and results” (third and fourth stages of convergence (Pollitt, 2001 & 2002)) were very different. The councils were far from becoming NPM clones as a result of external isomorphic pressures.

Change in the case study councils seemed to be in accordance with what has been called a “theory of pragmatic solutions” (personal conversation with Maureen Mackintosh, 2002). People fix what they perceive to be broken using the tools at hand. Some of the breakages may be caused by legislative change, some are resource limitations and many seem to be human resource problems. The breakages arise from the conditions and spaces shaped by “locality effects” (Urry, 1987) pertaining to that council, and the problem is defined within these local parameters. Among the tools at hand are available forms that have been used in other parts of the council, other councils, or parts of the state or private sectors. Also among the locally available tools are any approaches developed by a particular council to provide a solution to a specific problem.

The pragmatic solutions considered in this research have been achieved with accounting tools, some of which have been utilised by non-accountants using accounting in novel ways. Why accounting tools? In these particular institutions at the time of the research accounting had become a knowledge in which organisations and their problems could be defined. In both countries NPM had reconditioned discourse in the public sector from the social towards the economic, and accounting “provides a powerful means for confronting the social and the political with the economic” (Hopwood, 1990, page 10). In New Zealand particularly, the creation of economic spaces within the state described by Larner (1997) had happened as a result of the visibilities created by accounting.

One of the reasons accounting provides such an accessible tool kit is because it has become a shared language for decision makers in local government. The kit includes very powerful tools; procedures which seem unchallengeable and which involve the mystique and power of inscribed numbers (Chua, 1996). In addition, the accounting that can provide all these things is a flexible tool and can be used to reconfigure conceptions of organisations by providing alternative visibilities. In response to locally defined problems the case study councils were using accounting to provide pragmatic solutions.

Further Research

I have been able to examine some of the accounting, some of the reasons for its use and some of its outcomes in four councils. The conclusions I have drawn can only be said to apply to those cases. I hope that my main conclusion, which is that accounting is being used by people in these councils as a tool to achieve locally defined aims and fix locally defined problems, applies in other councils. Some of the other conclusions, particularly concerning problematic outcomes of full costing and the centrifugal council, are worrying if they hold good elsewhere.

Decision-makers in the case study councils appear to be using accounting in a pragmatic way to solve problems they see as locality specific. All of the accounting found being used in this way has the effect of more clearly defining individual parts of the council. Unfortunately if parts of the council are seen to be distinct in this way then they can also be seen as separable, thus denying any synergistic contribution they may make to the council as a whole. If centrifugal forces generated by accounting apply generally in local authorities and no opposing forces can be perceived it may be supposed that eventually councils will disintegrate. However the demise of local government has been predicted often but has not happened yet. Nevertheless, the centrifugal forces identified by this research are accounting generated, and accounting has become a dominant discourse within local government. Without a similarly powerful countervailing discourse supporting the value of multi-function local government organisations then the relentless logic of this numerate discipline could achieve what politics has not. If this is a possibility, then the centrifugal influence of these pragmatic uses of accounting needs to be examined throughout local government. Work is also needed to identify and assess the centripetal forces which maintain councils as cohesive multi-functional organisations.

Certain forms of decision-making in councils can be portrayed as being based on comparisons between illusional correct costs built from immiscible financial and management accounting or between these costs and external prices. It is conceivable that this does not result in a deleterious effect on council services, and if so the extent to which a belief in correct costs is generating concern is immaterial. Nevertheless, as an accountant I am concerned that public sector accounting may have based much of the professional developments of the last twenty years on a myth. In the early eighties the creation of DLOs as quasi-autonomous parts of councils generated a need for costing of

their services. The political desire for a 'level playing field' meant that these accounts mimicked those of a separate commercial enterprise, and included administration, strategic and capital costs. Once one economic space had been thus defined it was easy to extend the concept elsewhere. Once one full cost was being used for decision making then the concept had been established, and full costs became apparently attainable goals for other comparisons and consequent decisions. There needs to be more work done on identifying the extent of untoward effects created by using full costs for comparison based decision making.

Last Word

For all the legislative and environmental differences between the two countries the urban councils and the rural councils seemed to be closer to one another than their compatriots. Locality effects seemed to be stronger than national economic and political regimes. Although there appeared to be some evidence that accounting was supporting a neo-liberal agenda within councils, it was heartening to find that managers were using accounting to provide pragmatic solutions and achieve their own ends.

Nevertheless I have strong reservations about the role of accountancy in producing centrifugal effects in councils, and concern about the profession's use of full costing to provide comparators for decision making. It seems that accountancy has become the language of transactions in a public sector increasingly defined as a divisible collection of economic spaces.

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Glossary of Terms and Abbreviations

| | Country | |
|---------------------|-------------|--|
| Accounts Commission | Scotland | Scottish Accounts Commission, formed 1975 |
| Audit Scotland | Scotland | Formed in 2000 to provide audit services to, among others, the Accounts Commission |
| BVR | Scotland | Best value review |
| CCT | Scotland | Compulsory competitive tendering |
| CIPFA | Scotland | Chartered Institute of Public Finance and Accountancy |
| COSLA | Scotland | Convention of Scottish Local Authorities |
| gaap | Both | generally accepted accounting practice |
| ICANZ | New Zealand | Institute of Chartered Accountants of New Zealand (formerly NZSA) |
| LTFS | New Zealand | Long term financial strategy |
| NPM | | New public management |
| NZSA | New Zealand | New Zealand Society of Accountants |
| RAF | New Zealand | Review of activities and funding |
| Round Table | New Zealand | Business Round Table |
| Scottish Executive | Scotland | National executive body since 1997 constitution of Scottish Parliament |
| Section 95 officer | Scotland | Officer with responsibility for the proper administration of council's financial affairs under the Local Government (Scotland)Act 1973 (Section 95) |
| Services | Scotland | Reportable elements of council services |

| | | |
|------------------------|-------------|--|
| Significant Activities | New Zealand | Reportable elements of council services |
| SLA | Both | Service level agreement |
| SLGIU | Scotland | Scottish Local Government Information Unit |
| Treaty of Waitangi | New Zealand | “In 1840 the Maori people exchanged their sovereignty for the guarantees of the treaty and New Zealand became a British colony” (Statistics New Zealand, 1996) |
| TUPE | Scotland | Transfer of Undertakings (protection of employment) Regulations 1991 |
| UAC | New Zealand | Uniform annual charge |
| UAGC | New Zealand | Uniform annual general charge |

Appendices

| | |
|-------------|--|
| I | Scottish Regional and District Council Functions |
| II | New Zealand Regional and Territorial Council Functions |
| III | Purposes of New Zealand Local Government |
| IV | New Zealand Questionnaire |
| V | New Zealand Questionnaire Covering Letter |
| VI | Interview Agreement Form |
| VII | Scottish Questionnaire |
| VIII | Scottish Questionnaire Covering Letter |
| IX | Case Study Interview Mix |
| X | What was gone through for the LTFS |

Scottish Regional and District Council Functions Appendix I

**Scottish Regional Councils – functions adapted from Rating Review Actuals 1993-94
(CIPFA, 1995)**

| | | |
|--|------------------------|------------------------|
| Education | Water & Sewerage | Airports |
| Careers Service | Flood Prevention | Ferries |
| Social Work | Coast Protection | Harbours |
| Police | Roads & Road Safety | Consumer Protection |
| Fire | Highways Lighting | Weight & Measures |
| Civil Defence | Industrial Promotion | Diseases of Animals |
| Strategic Planning | Industrial Development | Valuation & Rating |
| Registration of Births, Deaths & Marriages | | Electoral Registration |

**Scottish District Councils – functions adapted from Rating Review Actuals 1993-94
(CIPFA, 1995)**

| | | | |
|--------------------------------|---------------------------------------|---|--|
| Housing and Rents | Public Conveniences | Industrial Development (concurrently with regions) | |
| Libraries | Health and Safety at Work | Licensing of Dogs, Betting and Gaming, Theatres and Cinemas, Taxis and Liquor | |
| Tourism | Caravan Sites | Countryside (regions also have a prescribed role) | |
| Nature Conservation | War Memorials | Community Centres (can also be provided by regions depending on purpose) | |
| Leisure and Recreation | Burial and Cremation | Local Planning | These functions were performed at regional level by the three rural regions, Borders, Dumfries & Galloway and Highland |
| Parks | Markets | Development Control | |
| Museums and Art Galleries | Slaughterhouses | Urban Development | |
| Environmental Health | Allotments | Listed Buildings and Ancient Monuments | |
| Cleansing | Shop Hours | Conservation Areas | |
| Refuse Collection and Disposal | Food Hygiene, Standards and Labelling | Building Control | |

New Zealand Regional Councils – functions adapted from New Zealand Official Yearbook 1996 (Statistics New Zealand, 1996)

| | | |
|--------------------------------|--------------------------------|--|
| Resource Management Act duties | Pest and Noxious Plant Control | Passenger Transport Operator Control - Auckland & Wellington |
| Soil Conservation | Harbour regulations | Overview Transport Planning |
| Rivers Control | Marine Pollution | Regional Civil Defence |

New Zealand Territorial Councils – functions adapted from New Zealand Official Yearbook 1996 (Statistics New Zealand, 1996)

| | | |
|----------------------------------|---------------------------------|--------------------|
| Land Use Consents | Noise Control | Litter Control |
| Roading | Water Supply | Parks and Reserves |
| Libraries | Land Subdivision | Pensioner Housing |
| Building Consent | Health Inspection | Parking Controls |
| Sewage Reticulation and Disposal | Rubbish Collection and Disposal | Civil Defence |

Purposes of Local Government in New Zealand Appendix III

from Local Government Amendment Act (no.2) 1989 (S37κ)

The purposes of local government in New Zealand are to provide, at the appropriate levels of local government,--

- a) Recognition of the existence of different communities in New Zealand:
- b) Recognition of the identities and values of those communities:
- c) Definition and enforcement of appropriate rights within those communities:
- d) Scope for communities to make choices between different kinds of local public facilities and services:
- e) For the operation of trading undertakings of local authorities on a competitively neutral basis:
- f) For the delivery of appropriate facilities and services on behalf of central government:
- g) Recognition of communities of interest:
- h) For the efficient and effective exercise of the functions, duties, and powers of the components of local government:
- i) For the effective participation of local persons in local government.

RESEARCH INTO MANAGEMENT AND ACCOUNTING STRUCTURES IN NEW ZEALAND LOCAL GOVERNMENT
(First page customised for each council)

1. Current structures

- Below is a table listing your Council's Manager Posts (or equivalent), derived from the LGNZ Directory and Web site postings.
- I would appreciate it if you could check that I have these correct and complete; please amend if necessary.
 - If your council operates through committees please enter them in the middle column, indicating any hierarchy between them.
 - If particular managers are concerned with the work of particular committees, please connect them with a line.
 - If any parts of your council are operating as LATES or Business Units, please enter them in the appropriate right hand column.

XXXXXX Council 12 Councillors plus Mayor

| Managers |
|-----------------------|
| Chief Executive |
| Services & Operations |
| Corporate Services |
| Finance |
| |
| |

| Committees |
|------------|
| |
| |
| |
| |
| |
| |

| LATES | Business Units |
|-------|----------------|
| | |
| | |
| | |
| | |
| | |
| | |

| |
|-------------------|
| 2. Changes |
|-------------------|

| | Management / Staff Structure | Councillor / Committee Structure |
|--|------------------------------|----------------------------------|
| Have these structures been the same since re-organisation? | | |
| If there has been changes, how many times has this happened? | | |
| Was there a particularly significant change? | | |
| If so when? | | |
| And what changed? | | |
| When was the most recent change? | | |
| What changed? | | |

| |
|-----------------------------|
| 3. Outside providers |
|-----------------------------|

Since reorganisation which services have been sold by the Council or are now being provided by other organisations?

| Service | In which year was the change made? | Sold or contracted out? | What type of organisation now provides the service - e.g. private, voluntary, other council? |
|---------|------------------------------------|-------------------------|--|
| | | | |
| | | | |

4.

General Ledger

The general ledger usually reflects the unique structure of the council. If it is possible please provide a copy of your ledger code book structure from the top down to the level above cost centres

5.

Where are the accountants?

For your authority please list your services, and show the number of accountants based in each service and the Manager (or equivalent) to whom they report. Include vacant qualified accountants posts, and any qualified accountants in other posts.

| Service / Section | Number | Manager or equivalent to whom they report |
|-------------------------------|----------|---|
| <i>e.g. Roading</i> | <i>1</i> | <i>Operational Services manager</i> |
| <i>e.g. Corporate Support</i> | <i>3</i> | <i>Finance manager</i> |
| | | |
| | | |
| | | |

6.

Accountant Structures

If there are several accountants in any one service please provide a diagram showing how they are organised.

7.

Financial implications

Do the majority of reports for councillors have to contain information on the financial implications of the action recommended?
If so which post(s) are responsible for writing the financial implications?

8. Financial policy and reporting

Which posts have responsibility for preparing :-

| Post(s) | Section(s) |
|---|------------|
| long term financial strategy proposals? | |
| annual plan? | |
| annual report? | |
| expenditure to budget comparison reports? | |

And which committee(s) do they go to :-

| Committee(s) |
|---|
| long term financial strategy proposals? |
| annual plan? |
| annual report? |
| expenditure to budget comparison reports? |

9. Financial software

What software do you use for your ledger ?
Roughly when was it installed?

10. Integration of financial software information

Are your payments to creditors :-

made through a system integrated with your ledger? ☐ made through a separate system? ☐ made by an external contractor ? ☐

Are your salaries and wages payments :-

made through a system integrated with your ledger? ☐ made through a separate system? ☐ made by an external contractor? ☐

Are there any other systems integrated with your ledger? If so, please list them.

11.

Devolution and control of financial information

Many councils are devolving budgets and budgetary control within the organisation. Modern computerised ledger systems can allow many functions that used to be performed by accounting or IT staff to be done in other departments.

Please tick all boxes that apply to your council:

| | | In all or most of council | | In some parts of council | | In accounting section only | | | | IT Dept |
|---|---|---------------------------|-------------|--------------------------|-------------|----------------------------|-------------|-------|-------|---------|
| | | Managers | Other Staff | Managers | Other Staff | Managers | Accountants | Other | Staff | |
| | LEDGER | | | | | | | | | |
| a | Who can access 'their' parts of the ledger on screen? | | | | | | | | | |
| b | Who can request routine reports? | | | | | | | | | |
| c | Who initiates routine reports? | | | | | | | | | |
| d | Who can request other reports? | | | | | | | | | |
| e | Who initiates those reports? | | | | | | | | | |
| f | Who can initiate journals? | | | | | | | | | |
| g | Who can input journals? | | | | | | | | | |
| h | Who can input budget details? | | | | | | | | | |
| i | Who can initiate virements between budget heads? | | | | | | | | | |
| j | Who can input virements between budget heads? | | | | | | | | | |
| | CREDITORS | | | | | | | | | |
| k | Who inputs payments requests? | | | | | | | | | |
| | SALARIES & WAGES | | | | | | | | | |

[illegible]

RESEARCH INTO MANAGEMENT AND ACCOUNTING STRUCTURES IN NEW ZEALAND LOCAL GOVERNMENT

Name of person to contact in the event of any query

| |
|--|
| |
|--|

Telephone Number

Please return your completed questionnaire, with any code book structure list and diagram of accountants as soon as possible to:

**Lorna Eller
University Address**

Thank you for spending the time to complete this questionnaire

New Zealand questionnaire covering letter Appendix V

Lorna Eller
University Address

☎ University Telephone Number

Dear
New Zealand Local Government

Research into the effectiveness of changing accounting structures

After 19 years working in Scottish Local Authority Finance Departments I spent a year in New Zealand as a visiting lecturer for XXX University where I had the opportunity to find out about New Zealand Local Government. Councils in both countries seemed to be undergoing the same problems and changes so I have taken time out to try to find out a little more about what it is we are all doing and why. Consequently I am now four years down the track with a British Open University PhD into this topic. One of the aspects of my enquiry is a survey of all councils into the basics, who does what and where. The enclosed questionnaire is seeking information on the member, officer and accounting structures and accounting resources within your council. A similar questionnaire to Scottish Councils has produced an eighty eight percent response rate. I was delighted with this and am hoping that New Zealand Councils will also be willing to provide this information. This will enable me to draw up an existing practices statement which will be circulated to all participants.

You may feel that some of the information I am requesting is of a sensitive nature, especially in these competitive times. The details will be pooled to produce a total analysis, so there will be no individual Council identification on any information produced and all replies will be treated in confidence.

New Zealand councils range from small to very large and as a result this questionnaire may seem overcomplicated to some councils and simplistic to others. I do appreciate this and ask your forbearance with the constraints imposed by the one-size-fits-all approach.

I hope you will be able to find time to complete this. It should take no more than half an hour. I enclose a SAE for your convenience. If you have any questions please do not hesitate to give me a ring at the above number, or alternatively you can write to me at the above address.

Yours sincerely

Research into the effectiveness of changed management and accounting structures in local government in New Zealand and Scotland

The researcher: Lorna Eller is an accountant who worked for 18 years in local government mostly in Scotland. In 1992 she was a visiting lecturer at xxx University and undertook consultancy work for xxx Council. Since then she has been training, lecturing and researching in Scotland.

Aim of research: To discover how management structures and accounting structures in local authorities in Scotland and New Zealand have changed, and study organisational perceptions of the causes and consequences.

It has been agreed that your Council will be a case study for this research. The interviews with individual managers, accountants and other members of staff are a vital part of the case study and the results will be combined to allow a broad picture to be created from staff perceptions of the effects of changes.

Interview participant's agreement

I agree to take part in this study. I understand that I can raise any questions or withdraw at any time. It is up to me to decide how much information I choose to give in the interview. I understand that any information collected by the study will be treated in the strictest confidence, and that I will not be identified by name in any report or other material arising from the research.

Signed

Date

Scottish Councils Questionnaire Appendix VII

(First page customised for each council)
xxx Council:

| Committees | Directorates |
|-------------------------------------|---|
| Policy & Resources | Chief Executive Legal & Corporate Services Finance Information Technology Property & Technical Services |
| Licensing | |
| Women & Equal Opportunities | |
| Education | |
| Social Work | Education |
| Housing | Social Work |
| Arts & Recreation | Housing |
| Planning & Strategic Development | Arts & Recreation |
| Personnel | Planning & Strategic Development |
| Community Development | Personnel |
| Environmental & Consumer Protection | Community Development |
| Economic Development | Environmental & Consumer Protection |
| Contracting Services | Economic Development |
| | Contracting Services |

1. I enclose a table listing your committees and directorate (or equivalent), derived from the SLGIU/COSLA Directory. I have attempted to relate officers to their primary committees, which is easier in some cases than in others. Please check that I have:
- a) listed the committees correctly - if not please correct

- b) listed the chief officer posts correctly - if not please correct
 - c) correctly represented any hierarchy among the officers - if not please correct
 - d) correctly represented relationships to committees - please correct and add in any that are missing
2. Please provide a copy of your ledger code book structure from the top down to the level above cost centres
3. Where are the accountants? For your authority please list your services, and show the number of accountants based in each service and the Director (or equivalent) to whom they report. Include vacant qualified accountants posts, and any qualified accountants in other posts.

| Service | Number | Director or equivalent to whom they report |
|---------------------|--------|---|
| <i>e.g. Housing</i> | 4 | <i>2 to D of Finance, 2 to D of Housing</i> |
| | | |
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4. Please provide a chart of the organisation of accountants based in Finance.
5. Which posts have responsibility for preparing routine revenue expenditure to budget comparison reports for Committees?
6. In which Director's name are they put to Committee?
7. What software do you use for your ledger ?
8. Roughly when was it installed?
9. With which, if any, non-financial systems is it integrated?

10. Please tick all boxes that apply :

| | In all or most Departments | | In some Departments | | In Finance Department Only | | | IT Dept |
|---|----------------------------|------------------------|---------------------|------------------------|----------------------------|-------------|--------|---------|
| | Managers | Admin or Finance Staff | Managers | Admin or Finance Staff | Managers | Accountants | Others | |
| | | | | | | | | |
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11. Apart from Creditors and Salaries and Wages which other systems generate direct input to your Council's ledger?

12. Which Department's staff have responsibility for input into these systems?

RESEARCH INTO ACCOUNTING STRUCTURES IN SCOTTISH LOCAL GOVERNMENT

Name of person to contact in the event of any query

Telephone Number

Please return your completed questionnaire, code book structure list and chart of accountants in Finance as soon as possible to:

Lorna Eller
Home Address

Thank you for spending time to complete this questionnaire

Scottish Questionnaire Covering Letter Appendix VIII

Lorna Eller, Cipfa

Home address and Telephone Number

Dear

Research into the effectiveness of changing accounting structures in Scottish Local Government

After 19 years working in Local Authority Finance Departments I decided to take a break and try to find out a little more about what it is we are all doing. Consequently I am now two years down the track with an Open University PhD into this topic. One of the aspects of my study is a survey of the basics, who does what and where - especially interesting following re-organisation. I am asking all of the Scottish Councils to provide this information, which will provide the basis for an existing practices statement. This will be circulated to all participants.

You may feel that some of the information I am requesting is of a sensitive nature, especially in CCT times. The details will be pooled to produce the total analysis, there will be no individual Council identification on any information produced.

Please find the time to complete this, the questions should take around 15 minutes, allowing for rounding up the charts asked for in questions 2 and 5 it should take no more than half an hour. I know you are busy, but I would hope that you will find the results interesting. I enclose a SAE for your convenience.

Yours sincerely

Case Study Interview Mix Appendix IX

| | NZ1 | NZ2 | S1 | S2 |
|-----------------------------|------------|------------|------------|-----------|
| <i>People Interviewed</i> | | | | |
| Accountants | 6 | 2 | 9 | 4 |
| Heads of service | 9 | 5 | 7 | 4 |
| Councillor | 1 | 1 | | |
| Council Centre | 1 | 1 | 2 | 1 |
| Total | 17 | 9 | 18 | 9 |
| <i>Number of Interviews</i> | | | | |
| | 16 | 10 | 18 | 8 |
| Dates | 10/98-1/99 | 12/98-2/99 | 11/00-1/01 | 2/01-6/01 |

What was gone through for LTFS Appendix X

(See Chapter 8 Tax versus Charge)

This is a quote from one of the New Zealand councils describing the process they employed for the Long Term Financial Strategy. As an explanation of what was done it is a great deal more interesting than a simple interpretation of the Act, and highlights some of the many considerations that councils attempted to include in the process.

“We did a number of things with them (the councillors), um, and we, we very much tried to keep them away from just saying well this is what we do now, so we tried to um, we sort of outlined to them the current financial picture of an activity, um, both operating and capital, the rationale for why we were involved and what the level of service was that we were providing... it came from us, but we did talk to the areas about it, those, but we did try to keep the oversight on it, keep things a little bit more neutral, um, what, whether it had legal authority to be engaged in the activity and then were there any other reasons why it was engaged, in that we actually we generated, we tried to generate more from the councillors, I mean we had a list ourselves, you know, it might be social or economic or environmental, whatever, historic reasons some of them. (laughter) and so yeah, the rationale for being in it, and then just a, we did a few things about whether there was community support for the activity and what sort of form did that take, and that type of thing. How it fitted with the council's strategic direction etc. And then we asked them about did they think the council still should have a role, why, what level of service if it did have a role etc.

And then we went through a series of questions about um, sort of cost allocation and economic principles, who benefited from the expenditure, how did we know who

benefited, could we actually rationally, logically, objectively explain that or was it just somebody felt that Joe Bloggs.... And er, was there anything else they needed to know about in terms of who benefited, um, were there any issues about benefit, cost benefit, you know, expenditure made and benefit back. Um, looking at benefits over time, particularly in relation to capital expenditure projected for an activity, um, asking whether the, this whole issue of exacerbator pays, whether or not there were any negative effects that needed to be controlled and were they, could they be attributed to identifiable groups of people, and were there any direct beneficiaries and who were they and what type of benefit. So we actually went through each of those sort of questions and then got them to do a little exercise about er, and then got them to look at, we had a continuum of how they saw, given where the benefits and the costs lay, where would they look at um, the activity on a continuum with private to public benefit, um and then within that what sort of percentage was seen as being driven by exacerbators, private beneficiaries or public benefit, and public we also got them to look at; is it a group, public group or the city just as a whole, blanket, um, say for example, something like um water supply where the rural area doesn't really benefit at all, um, so, well some of them might have said it is a public benefit, in having a water supply, it's really only for the urban area.

Um, that was the ideal, and then we um got them to er, look at fairness and equity, so, you know that was ideally how you'd do it but were there issues in terms of ability to pay or consistency and things like that we needed to take account of, any council policies, um, some funny bits of legislation and policies and things, um, for example we found out that we couldn't actually raise library fines, fees, charges for anything without actually going through a full council process. So raising the fines from 20 cents to 50 cents for example ... Um, were there any transition issues? And that's where then we put in front of them the current split of that activity, so um, in this case it's 97% public and 3 well, actually it's

100% public because the others are government grants, um, and were there any transition issues therefore from where they had got to after those first two steps of ideal and then fairness and equity coming back to, this is how it is now, you know, if you want to go from 10% private to 90, you have got a big jump, how are you going to do it? Um, so that was sort of the process we took, tried to end up with... Um, we broke it up into more than that er, we had about 40, there were more than the significant activities basically, we broke it down. So, it was quite an undertaking” (O.121-131)

